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**SALT LAKE COUNTY AUDITOR'S OFFICE**  
**CRAIG B. SORENSEN, AUDITOR**

October 14, 2003

Glen Lu, Director  
Parks and Recreation Division  
2001 South State Street #S4400  
Salt Lake City, Utah 84190

RE: Northwest Multipurpose Center Cash Audit

Dear Glen:

The Audit Division recently completed a review of fixed and controlled assets and of cash collection, receipting, and depositing functions at the Northwest Multipurpose Center. Additionally, we examined the Center's petty cash and change funds. We found internal controls to be generally adequate. Checks were restrictively endorsed upon receipt, funds for bank deposits were placed in plastic tamper-proof deposit bags, and bank deposits were made within three days from the time funds were collected. However, during our review we noted some cash handling procedures which could be improved. In addition, some improvements regarding controlled assets management and merchandise inventory procedures are needed. The following section of the letter addresses some areas that need improvement to strengthen internal controls over cash handling, vending machine inventory management, and safeguarding fixed and controlled assets.

#### **CASH RECEIPTING AND DEPOSITING**

- **Adjustments made to the cash register till Ztape reports were not reviewed and signed by a supervisor.**
- **The Center's change fund was \$30 over the authorized amount.**
- **There was not a proper separation of cash handling duties at the Center.**

- **Over/short logs were not maintained accurately.**
- **Voided transactions were not appropriately reviewed and approved.**
- **Cash collected in the vending machine was being exchanged for advisory board credit card payments.**

**Adjustments made to the cash register till Ztape reports were not reviewed and signed by a supervisor.** In addition, there was no written explanation for the adjustment on the majority of the adjustments we reviewed, nor was there a signature of the person making the adjustment. Without a signature, we could not be sure if someone is reviewing and approving the adjustments, and without a written explanation for the adjustment, the circumstances warranting the adjustment were not ascertainable.

The Cash Register Till Ztape Reports list the name of the operator who is using the software to make adjusting entries, and the activity line sometimes has a brief description for the adjustment. However, the description line allows only a limited number of letters which does not permit a full explanation of the circumstances warranting an adjustment. To establish better accounting control over the funds and operations, a detailed explanation for all adjustments should be included in the accounting records (the Cash Register Till Ztape reports). In addition, a supervisor (the Program Coordinator or Center Director) or someone not involved in making the adjustments should review and sign all adjustments. These documentation and review procedures help to protect funds from being diverted to personal use through inappropriate adjustments.

#### **RECOMMENDATIONS:**

1. ***We recommend that adjustments to the Cash Register Till Ztape Report have sufficient detail to document the reason for the adjustment and be signed by the person making the adjustment.***
2. ***We recommend that adjustments be reviewed by a supervisor and that the review be documented with the supervisor's signature.***

**The Center's change fund was \$30 over the authorized amount.** Each agency has an authorized change fund amount. Countywide Policy #1062, "Management of Public Funds," Section 2.5.5, states, "Any overage in the accounts of an Agency Cashier will be deposited in the appropriate fund through the normal process of regular depositing and listed as an overage on the Monthly Report of Cash Receipts and on MPF Form, CASH OVER/SHORT LOG." We conducted an unannounced count of the change fund at the Center and found that the change fund amount was \$30.00 over the amount recorded on the Petty Cash Fund Report. The amount could be used as a "slush fund" to cover shortages when cashiers count their tills. The overage in the change fund should be deposited in the appropriate fund to bring the change fund total to the authorized amount.

**RECOMMENDATION:**

*We recommend that the overage in the change fund be deposited in the appropriate fund to bring the change fund total to the authorized amount.*

**There was not a proper separation of duties at the Center.** The introduction to Countywide Policy #1062, "Management of Public Funds," states, "*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.*" For proper internal control, the person who prepares the deposit should not have access to the accounting records (e.g., should not be able to make adjusting entries in the accounting records), although small staff size might render this impractical. If this level of separation of duties is not possible, it is imperative that a supervisor reviews and documents with a signature the deposit preparation records, as well as any adjustments made to the accounting records.

The cashier who prepares the deposit at the Center has responsibility over receipting funds during the day, counting collections, preparing deposits, and making adjusting entries. The cashier stated that she counts her receipts in front of either one of the Program Coordinators or the Center Director. Sound cash management practices discourages a single employee from exclusively controlling a monetary transaction. Without proper separation of duties, the opportunity exists where funds could be diverted to person use. Additionally, mistakes may be less likely to be identified. If separation of duties is not possible, extra supervisory review can mitigate the risk. The deposit should be reviewed by someone entirely independent of the cashiering duties and the review should be documented with a signature.

**RECOMMENDATION:**

*We recommend that a supervisor review and document with a signature the deposit preparation records, as well as any adjustments made to the accounting records.*

**Over/short logs were not maintained accurately.** Countywide Policy #1062, "Management of Public Funds," Section 2.5.3, states, "*All overages and shortages, regardless of the amount, must be recorded and reported daily by the agency on MPF Form 10, CASH OVER/SHORT LOG.*" Section 5.2, states, "*Any overages will be deposited into the agency's depository account and reported on MPF Form 3, DAILY CASH BALANCE, MPF Form 10, CASH OVER/SHORT LOG, and on the Monthly Report of Cash Receipts. Shortages will be withheld from the deposit to maintain the change fund at the authorized level and will be reported on the MPF Form 3, and MPF Form 10. MPF Form 10 must be maintained and a copy signed by the immediate supervisor shall be attached to the Monthly Report of Cash Receipts that is sent to the Auditor's Office.*" The MPF Form 10 is designed to be an individual form, used to record and track the overs and shorts for each employee and includes separate lines for the employee's name and the Supervisor's signatures.

Prior to June 2003, over/short logs were not maintained and there was no tracking of the overs and/or shorts from the cashiers' individual Daily Cash Balance Sheets. The outages were only recorded on the Daily Cash Balance Sheets. Beginning in June 2003, the outages were recorded on over/short logs using a separate log for each cashier. We examined the over/short logs for June, July, and August 2003 and found that cashiers are not signing their individual over/short logs when amounts are recorded on the logs. Additionally, the logs have not been reviewed and signed by the supervisor.

When the Center was not tracking outages on the over/short logs, it was impossible to track each cashier's performance without reviewing all of the Daily Cash Balance Sheets. Therefore, it was difficult to determine if overages and/or shortages were excessive. It was also difficult to determine patterns of overs and shorts. Since June 2003, over/short logs have been maintained. However, without a signature, we cannot be sure whether the supervisor is reviewing the over/short logs and it cannot be ascertained whether the performance of the cashiers is being monitored by management.

To establish better accounting control, the cashiers should review the outages on their individual over/short logs, the supervisor should review each cashiers' over/short log, and the over/short logs should be signed by both the cashier and the supervisor to indicate review and approval of the amounts listed.

#### **RECOMMENDATIONS:**

- 1. We recommend that cashiers sign their individual over/short logs.*
- 2. We recommend that the over/short logs be reviewed by a supervisor and that the review be documented with the supervisor's signature.*

**Voided transactions were not appropriately reviewed and approved.** Countywide Policy #1062, Section 3.5.2.2, states, "*The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void.*"

Out of our sample of deposits, there were four voided transactions which did not have a void slip. We noted that a void slip was completed for the other voids in our sample. However, the void slips were not always signed by a supervisor. When voided transactions are not reviewed and approved by a supervisor, there exists an opportunity for funds to be diverted to personal use through inappropriate voided transactions.

#### **RECOMMENDATIONS:**

- 1. We recommend that a void slip be completed for every voided transaction.*

2. *We recommend that voided transactions be reviewed, approved, and signed by a supervisor not involved with the transaction.*

**Cash collected in the vending machine was being exchanged for advisory board credit card payments.** Northwest Multipurpose Center has an advisory board, and the fees collected for some of the recreation programs go to this board. The advisory board funds are not receipted and recognized as revenue to the County and are not considered public funds. Payments for the programs which the advisory board oversees are receipted separately from County funds and deposited in a bank account established by the advisory board.

The advisory board has not established a merchant identification number with a depository bank and is not able to process credit card transactions. Therefore, when a customer enrolls in a program sponsored by the advisory board and pays the fees using a credit card, money from the Center's vending machine is used to replace the credit card payment in the deposit for the advisory board. This practice represents co-mingling of public and private funds and is contrary to good accounting practice. As a result, the accounting records do not accurately reflect the composition of the funds collected. In addition, there is a risk of misappropriation of funds or of making mistakes when shifting money between the two depository accounts (the County deposits and the advisory board deposits).

Countywide Policy #1062, "Management of Public Funds," Section 3.14, states, "*Any agency authorized to accept credit cards as payment for County services, products, or events must contact the County Treasurer for account preparation. Account preparation includes assigning a Merchant Identification Number to the agency.*" The merchant agreement established by the Treasurer's Office is for credit card payments for County services, products, or events.

The exchange of County funds for advisory board credit card payments is unacceptable and should be discontinued. County funds and advisory board funds should remain separate. If the advisory board wants to accept credit card transactions for payments of the fees for the programs they oversee, the board needs to establish its own merchant agreement with its bank. Until the advisory board has established its own merchant account and is able to accept its own credit card payments, patrons paying for programs where the money belongs to the advisory board should pay in cash or by check.

**RECOMMENDATION:**

*We recommend that County funds and advisory board funds remain separate, and that County funds not be exchanged for credit card transactions belonging to the advisory board.*

## **FIXED AND CONTROLLED ASSETS**

As defined in Section 1 of Countywide Policy #1125, "Safeguarding Property/Assets," fixed assets are items having a value greater than or equal to the capitalization rate—currently \$5,000—while controlled assets are items valued between \$100 and \$4,999, and considered as easily convertible to personal use. Cell phone, pagers, and radios are classified as controlled assets regardless of cost. The Northwest Recreation Center does not have any fixed assets on location. Unlike fixed assets, controlled assets are not tracked centrally by the Auditor's Office, but are the responsibility of the organization possessing them.

We conducted an inventory of the Center's controlled assets and found that adequate procedures were in place to guard against theft. These procedures included attaching a numbered tag to each item and listing the tagged items on a controlled asset list. Despite the adequacy of procedures, the following matters of concern came to our attention.

- **Three assets identified on the Controlled Assets Inventory Report could not be located.**
- **Make, model, and serial numbers were not recorded for each item identified on the Controlled Assets Inventory Report.**
- **There was not a current inventory list of controlled assets for each employee who has been assigned specific assets.**

**Three assets identified on the Controlled Assets Inventory Report could not be located.** We took a statistical sample of the Center's controlled assets listed on their Controlled Assets Inventory Report and conducted an inventory of those assets. We were unable to locate three of the 36 items in our sample. These three items are detailed as follows:

<b>ITEM</b>	<b>SERIAL #</b>	<b>CONTROL TAG #</b>
Amano Pix 10 time clock	364178010	JP00022
Compaq CPU	03429816979	JP00033
Desk	Unknown	JP00068

Northwest staff indicated that the time clock had been surplussed and replaced with a new one. However, we did not find a County Personal Property Transfer/Disposal/Internal Sale Form PM-2 to verify the clock had in fact been transferred to surplus. Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.3.3, states, "*When employees determine property they are using is no longer needed it should be disposed of under supervision of the property manager in accordance with Countywide Policy #1100 on Surplus Property.*" Assets sent to surplus should be removed from the Controlled Assets Inventory Report. Also, we noted

that the new time clock was not tagged and has not been added to the Controlled Assets Inventory Report.

The status of the Compaq CPU and the desk were unknown. The computer, by its very nature, could readily be adapted to personal use or sold on the open market. Therefore, an effort should be made to determine if it was stolen, sent to surplus, or if it still exists at a Parks and Recreation facility. Also, an effort should be made to determine the location of the desk.

#### **RECOMMENDATIONS:**

1. ***We recommend that the property manager complete a County Personal Property Transfer/Disposal/Internal Sale Form PM-2 when transferring assets to surplus.***
2. ***We recommend that personnel at the Northwest Multipurpose Center make an effort to locate the Compaq computer and desk not found in our inventory.***

**Make, model, and serial numbers were not recorded for each item identified on the Controlled Assets Inventory Report.** Due to the lack of a unique identifier, such as a make, model, controlled asset tag, or serial number, we could not verify some items listed on the Controlled Asset Inventory Report.

Countywide Policy #1125 indicates that the make, model, and serial number are to be recorded on the Controlled Assets Report for *all* controlled assets. Without the serial number, it is difficult to distinguish between identical pieces of equipment. Serial numbers uniquely identify those assets with identical makes and models.

#### **RECOMMENDATION:**

***We recommend that the Center's Controlled Assets Inventory Report include the make, model, and serial number, where available, for all items listed on the report.***

**There was not a current inventory list of controlled assets for each employee who has been assigned specific assets.** In addition to the controlled assets inventory for the organization, a "*Controlled Assets Inventory Form - Employee*" must be completed for each employee who is assigned fixed or controlled assets. The Center has not completed the controlled asset inventory forms for employees who have items which are readily assignable to them, as described in Countywide Policy #1125, "Safeguarding Property/Assets." According to Countywide Policy #1125, Section 4.3, "*The property manager shall maintain records to manage controlled assets using the following forms and procedures: Controlled Assets Inventory Form-Employee and Controlled Assets Inventory Form-Organization.*" Because the "*Controlled Assets Inventory Form - Employee*" is not used, the employees have not signed forms indicating their acceptance of responsibility for the assets they have been assigned.

The Center has a list of controlled assets for the entire facility. However, the property manager at the Center did not have the “*Controlled Assets Inventory Form-Employee*” for each employee, and was not aware that those employees with assignable assets should each complete a separate inventory form.

**RECOMMENDATION:**

***We recommend that the property manager use the “Controlled Assets Inventory Form-Employee” (Exhibit 3 of Countywide Policy #1125) for the record of controlled assets and have each employee who has been assigned specific assets complete and sign the form.***

**MERCHANDISE INVENTORY**

During the course of our audit we reviewed the Center’s merchandise inventory procedures and noted the following:

- **Northwest did not perform an inventory reconciliation for candy items sold from the vending machine.**

**Northwest did not perform an inventory reconciliation for candy items sold from the vending machine.** Northwest sells various candy items from their vending machine. Also, an inventory of candy items is stored in a locked closet, used to re-stock the vending machine when it is low. When re-stocked, all money is removed from the machine, counted, and added to the daily deposit where it is recorded as vending revenue.

However, a reconciliation of inventoried items is not performed. Northwest does not show an analysis of vending sales to beginning and ending inventory items that would indicate whether all collections and goods are properly accounted for. Consequently, vending merchandise items could be stolen. Beginning inventory plus additions less ending inventory should equal the number of goods sold. Multiplying the number of these goods by their sales price should equal what is reported as vending revenue. Therefore, no mechanism exists to verify the accuracy of vending collections.

**RECOMMENDATION:**

***We recommend that vending sales be verified periodically by documenting a comparison of beginning and ending item counts, and additions, to total vending sales.***

In closing, we express appreciation to the staff at the Northwest Recreation Center for the cooperation and assistance they gave us during our audit. The staff was both friendly and helpful in completing this project. We are confident that our work will be of benefit to you and help you strengthen internal controls throughout the Northwest Multipurpose Center. If we can be of further assistance to you in this regard, please contact us.



Glen Lu, Director  
Parks and Recreation Division  
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Sincerely,

James B. Wightman, CPA  
Director, Internal Audit Division

cc: Paul Ross  
Kay Cameron