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CRAIG B. SORENSEN, AUDITOR

April 28, 2004

Glen Lu, Director  
Parks and Recreation Division  
2001 South State Street, Suite S4400  
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Dear Glen:

The Audit Division recently completed an audit of Copperview Recreation Center (CRC), East Millcreek Recreation Center (EMRC), and Kearns Recreation Center (KRC). At each Center we reviewed the following areas:

- Cash receipting and depositing, with particular emphasis on the McBee receipting system
- Jr. Jazz program reconciliation
- Petty cash and change funds
- Vending operations

In each of these areas, we evaluated the effectiveness of the internal control environment. Our work was designed to provide reasonable, but not absolute, assurance that daily transactions were valid, accurate, and appropriate according to prescribed management policies.

We found many internal control procedures in place and functioning properly. However, deficient internal controls in various operational areas at the centers create unreasonably high levels of opportunity for undetected theft(s) of funds to occur. These unreasonably high levels of opportunity will continue to exist until Parks and Recreation Management establishes proper controls, either by implementing our recommendations or some other equivalent control measures.

In addition, we have limited our comments to significant findings and recommendations. They are not all inclusive of the scope of the work performed. Other areas of concern have been discussed with the center directors in an exit conference. The reader, therefore,

should not assume that processes not discussed here are in compliance with countywide policy.

While the findings noted in this letter currently may not be an issue at each center, recreation management, nonetheless, needs to ensure that procedures noted in our recommendations are in place at all recreation centers. We have noted for each finding the centers that need improvement. In addition, Appendix A lists all the findings by center.

### **CASH RECEIPTING AND DEPOSITING**

During our examination of cash receipting and depositing we observed the following weaknesses. The recreation centers affected by each finding are noted in parenthesis.

- **At least 400 “white-out” and other alterations were made on the McBee ledgers that we examined. (CRC, EMRC, KRC)**
- **Daily collections were not balanced to the McBee ledger, and overs and shorts were not recorded. (CRC, EMRC, KRC)**
- **Controls over the receipting of Vista Park concession funds were almost nonexistent. (KRC)**
- **Adequate procedures were not in place to ensure the safeguarding of mailed-in receipts at the recreation centers. (CRC, EMRC, KRC)**
- **Non-County employees receipted County funds at an off-site facility with no County employee present. (KRC)**
- **Deposits were not made in a timely manner. (EMRC)**
- **Deposits were not held in a secure location prior to pick-up by the armored car service. (CRC)**
- **The bookkeeper performed some cash receipting duties and prepared the daily deposit. (KRC)**
- **Void slips were not always completed properly. (CRC, EMRC, KRC)**
- **Refund forms did not always contain two approving signatures. (CRC, EMRC, KRC) Two refunds were submitted for payment twice. (EMRC)**

- **Cashiers were improperly returning patron checks following payment of registration fees. (KRC)**
- **The sequence of pre-numbered McBee receipts had gaps, overlaps, and missing receipts. (CRC)**

**At least 400 “white-out” and other alterations were made on the McBee ledgers that we examined. (CRC, EMRC, KRC)** When we conducted our fieldwork, the three recreation centers included in this review were using the McBee receipting system for all transactions. Currently, Kearns is using the McBee for an off-site dance class and as a back-up to the newly-implemented Sportsman system, while Copperview and East Millcreek continue to use the McBee system. Under the McBee system, the original receipt is placed on top of the left side of a McBee ledger page as the receipt is being prepared. This leaves a carbon copy of the receipt on that side of the ledger. The right side of the ledger is completed separately and is used to assign the receipted amounts to the appropriate revenue category.

During our review of the centers’ cash receipting and depositing procedures, we noted at least 400 alterations to the McBee ledgers, usually by either “whiting-out” an original entry and then making a new entry or writing over an original entry with a pen. These alterations were made more frequently on the right side of the ledger than the left side.

Alterations to the left side of the ledger change the record of the entries made on the original receipt, possibly including the amount and composition of the monies received. As a result, left side alterations could be used to conceal theft of funds. Alterations to the right side either achieve consistency with the left side or change revenue categories. Consequently, we focused more on alterations on the left side of the McBee ledgers.

Many of the left-side alterations to amounts were done to change the cash/check/credit composition of the entry. Others were made to either increase or decrease the amount originally receipted. Alterations to decrease the amount recorded could indicate theft. However, there was no pattern indicating that any one individual had repeatedly made alterations. At the Kearns Center there were only seven such occurrences from the beginning of 2002 to the present and the dollar amounts involved were relatively small. In addition, at East Millcreek, the Program Manager initialed the McBee ledger line on which alterations were made to indicate that she had reviewed, and presumably approved, the transactions.

Regardless of whether any prior thefts have occurred at these centers, alterations of any kind on the left side of the McBee ledger could allow a cashier to conceal the theft of funds, as happened recently at the Equestrian Park. Differences between actual amounts

received and amounts recorded on a receipt, including composition errors, can be corrected by properly voiding the transaction and issuing a new receipt. However, voids should be done only if the error is detected immediately and the patron is still present to receive the replacement receipt.

If an error is discovered on the left side of the McBee after the patron has exited, it becomes either an over/short transaction or an inaccurate cash/check/credit composition entry. All over/short transactions should be identified by reconciling funds collected to amounts recorded on the McBee ledger, and recorded on an "Over/Short Log," as we recommend in the following section. Any pattern of discrepancies by the same cashier and/or any individual shortage that appears questionable should be reviewed by management. If necessary, this review should include a telephone call to the patron(s) involved in shortage transactions, to verify the amount of funds actually remitted by them. The frequency of individual cashier's cash/check/credit composition errors should also be monitored by management, as the occurrence of such entries may indicate the diversion of funds.

Changes can be made to the right side of the McBee ledger, but only by making a single line strike-through over the original entry. These changes should be reviewed and approved by a supervisor. The supervisor should sign the McBee ledger line to indicate their review and approval of the change.

**In summary, we reiterate that the use of alterations of any kind on the left side of the McBee ledger could allow a cashier to conceal the theft of funds. As a result, continuing to allow such alterations presents an increased opportunity for the theft of funds to occur. This increased opportunity will continue to exist until Parks and Recreation management either implements our recommendations, as discussed above and stated below, or implements other equivalent control measures.**

#### **RECOMMENDATIONS:**

- 1. We recommend that no alterations of any kind be made to entries on the left side of McBee ledgers.*
- 2. We recommend that voids to correct errors only be done if the error is detected immediately and the patron is still present to receive the replacement receipt.*
- 3. We recommend that any pattern of over/short discrepancies by a cashier and/or any individual shortage that appears questionable be reviewed by management. If necessary, this review should include a telephone call to the patron(s) to verify the amount of funds remitted.*

*4. We recommend that the frequency of individual cashier's cash/check/credit composition errors be monitored, and related problems reviewed, by management.*

*5. We recommend that changes to entries on the right side of McBee ledgers only be done by making a single-line strike through over the original entry.*

*6. We recommend that changes to the right side of the McBee ledger be reviewed by a supervisor, who should sign on the corrected McBee ledger line to indicate review and approval.*

**Daily collections were not balanced to the McBee ledger, and overs and shorts were not recorded. (CRC, EMRC, KRC)** The recreation centers record their daily count of collections on a form titled "Salt Lake County Parks and Recreation Transmittal of Funds for Deposit Form." This form does not have a section for entering the amount collected per the McBee ledger, cash register, or Sportsman on-line management system, as the case may be. The total of the left-hand columns of the McBee ledger provide a record of what should have been collected for the day, broken down by cash, check, or credit card designation. Once the day's activity is summed for each column, the bookkeeper would have an "amount collected" figure to compare to the amounts on hand. However, the form does not provide a format for such a comparison to be made.

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." Because the form being used has no provision for a comparison to the McBee ledger amounts, there is no certainty that all amounts collected are deposited. This grievous deficiency in cash handling controls could cause thefts to easily occur undetected.

In addition, there is no recognition of overages or shortages as required in Policy #1062, Section 3.7.3.2, which states, "Change funds should be counted, restored to the established imprest balance, and shorts and overs recognized and recorded on MPF Form 3, and on MPF Form 11, Cash Over/Short Log." Because no balancing is completed, there is not a way to determine if overs or shorts occurred. In the absence of any requirement to record the amount collected per the McBee ledger, the recreation centers are altering the McBee amounts to match the amount on hand.

Without a balancing procedure in place, not only are County funds at risk for theft, but employees risk legal consequences were they to embezzle money given the ample opportunity that exists to do so. In addition, without the monthly summary of over and short activity provided by the MPF Form 11, management has a lowered awareness of cashier accuracy and performance.

**RECOMMENDATIONS:**

- 1. We recommend that the "Salt Lake County Parks and Recreation Transmittal of Funds for Deposit Form" be modified to include a format to record the cash/check/credit amount collected per McBee (or any other cash receipting system).*
- 2. We recommend that each daily balancing activity include a comparison of amounts actually collected to the stated amount per the McBee (or other cash receipting system).*
- 3. We recommend that MPF Form 11, "Cash Over/Short Log," be completed on a daily basis.*

**Controls over the receipting of Vista Park concession funds were almost nonexistent. (KRC)** Kearns is responsible for a concession sales operation at the Vista Park Softball Complex, a County facility located a few miles from the Kearns Center. A \$75 Vista Park Concessions change fund is assigned to the Kearns Program Manager and is used to operate concessions at the softball park. Two part-time employees at a time operate the concessions building on weeknights and some weekends during the April-July and September-October softball seasons.

We reviewed the supporting documentation related to the Vista concession sales for the days in our sample on which funds were deposited. We also discussed the Vista concessions receipting and depositing procedures with the Program Coordinator who supervises this activity. We found the cash handling controls in this area to be extremely weak.

The identified weaknesses are:

- The cash register at Vista Park is not used to produce receipts, and is merely used as a repository for collections. As a result, patrons are not given receipts and no record of collection (Z-tape) is produced.
- Proper cash balancing procedures are not being completed (the lack of any collection record makes it impossible to do so). Consequently, over/shorts cannot be determined or tracked.
- No reconciliation is made between concession inventory and funds collected.
- Forms to transfer the custody of funds being transported back and forth between the Kearns Center and Vista Park are not being completed.
- The \$75 change fund is left in the cash register at Vista Park continuously during the softball seasons.

- Cashiers transport collected funds between the Park and the Center in an un-secure bank bag, and sometimes take the collected funds home and keep them until the next day that the Kearns Center is open.
- The former Kearns Program Manager, who has not worked at that Center since 2002, is still listed on Auditor's Office records as the custodian of the Vista Park change fund.

The weaknesses listed above either violate specific sections of Policy #1062 or are directly contrary to the intent of that policy. As noted above, the most basic types of controls are not being completed, such as the issuing of receipts. As a result, other important controls, such as the proper handling of voids and refunds, are currently impossible to implement.

Due to the lack of any type of collection record, it is almost impossible to determine if thefts of Vista Park funds have occurred. A reconstruction of inventory/re-ordering records and the comparison of those records to amounts deposited, and the direct questioning of employees that have worked at the Park, would be necessary to attempt to determine if thefts have occurred. Those steps are outside the scope of this audit.

**Regardless of whether or not any prior thefts of Vista Park funds have occurred, we assert that the current control situation, as described above, is fraught with opportunity for theft to occur. This opportunity will continue to exist until Parks and Recreation management establishes proper controls, either by implementing our recommendations or other equivalent control measures.**

#### **RECOMMENDATIONS:**

- 1. We recommend that a valid cash register receipt, or some other form of receipt, be completed and made available to all Vista Park patrons.*
- 2. We recommend that the collection record created as a result of receipt issuance be used to complete proper cash balancing procedures on a MPF Form 3, Daily Cash Balance Sheet, or an acceptable substitute form.*
- 3. We recommend that cashier over/shorts be properly documented and reviewed through the use of a MPF Form 11, Cash Over/Short Log, or an acceptable substitute form.*
- 4. We recommend that a reconciliation of changes in concession inventory to the amount of money collected from concession sales, to the extent possible, be completed at some regular, frequent interval.*

- 5. We recommend that the transfer of the custody of funds being transported between the Kearns Center and Vista Park, and vice-versa, be properly documented on a MPF Form 7, 7A, or an acceptable substitute form.*
- 6. We recommend that the \$75 change fund also be properly transported back and forth between Kearns and Vista on a daily basis, and kept in the safe at Kearns when not in use at Vista.*
- 7. We recommend that cashiers transporting collected funds and the change fund always have access to the Kearns Center so the funds can be placed in the Center safe immediately after the collection day.*
- 8. We recommend that a "Change in Custody" form be completed, and submitted to the Auditor's Office, to change custody of the Vista Park change fund to the current Program Manager.*
- 9. We recommend that other controls that are not currently implemented, such as the proper handling of void transactions, be implemented at Vista Park.*

**Adequate procedures were not in place to ensure the safeguarding of mailed-in receipts at the recreation centers. (CRC, EMRC, KRC)** When the mail was opened, no log was prepared detailing the amounts received. The mail was opened, on occasion, by one individual and a McBee receipt was prepared at the time. At East Millcreek the mail was delivered in the afternoon when only the cashier was available to open the mail.

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...*"

Internal control best practices suggest that two persons be present when mail is opened, that a mail log be prepared, that checks be restrictively endorsed, and that receipts be prepared. The log should be reviewed by a manager and made a permanent part of the daily deposit records. This is a protection for the employee and provides an audit trail for identifying the persons involved at each step of cash handling.

#### **RECOMMENDATIONS:**

- 1. We recommend that two individuals jointly open the mail.*

***2. We recommend that a log of mail-in payments be prepared, and a copy of the log accompany the funds for review that then becomes a permanent part of the daily deposit record.***

**Non-County employees receipted County funds at an off-site facility with no County employee present. (KRC)** An individual contracts with the County to provide a dance class at the Oquirrh Park Fitness Center, a non-County facility that is adjacent to the Kearns Recreation Center. This contractor is paid 70 percent of the revenue the class generates.

For convenience, patrons register and pay at Oquirrh Park, usually when they come for their first class. Currently, the contractor and her staff take a Kearns McBee receipt book to Oquirrh Park, receipt payments for the class, then bring collected funds and completed receipts back to the Kearns Center. No County employees are present during this receipting process. The collected funds are then deposited by a County employee and the receipt ledger is used to determine the class revenue and associated payment to the contractor.

Policy #1062, section 1.5, states, “*An officer or employee as a cashier by the applicable agency officer is authorized to perform limited cash receiving...*” but nowhere in any policy are contractors specifically prohibited from making collections on behalf of the County. No doubt this situation provides the contractor and/or the contractor’s staff, neither of whom presumably have been trained in County cash handling policies, with an opportunity to divert County funds to personal use by taking some payments and either not providing a receipt to patrons or providing a receipt that is not recorded on the McBee ledger. If done by the contractor, or with her knowledge, this would effectively increase her percentage share of the class revenue. If done by the contractor's staff without the contractor's knowledge, the staff member(s) would essentially be diverting funds from both the County and the contractor. It reasonably follows then that a County employee should be present to collect registration fees. If a County employee is present, then the contractor should retain possession of completed registration forms as a way to segregate the collection and sign-up functions.

On the other hand, requiring that a County employee be present at the dance classes may be an inefficient use of County resources since the employee would not otherwise need to be there. As an alternative, a County employee should make a surprise visit to the class, at least monthly, to compare attendance against sign-up forms and receipts. Also class participants should be required to sign a roll to document their attendance. The roll should be turned in to Kearns Recreation Center and compared to cash receipts, noting any differences from expected collection rates.

Determining whether any County funds have actually been stolen as a result of this situation was outside the scope of our audit; therefore, we make no statement as to the

occurrence of a prior theft. **However, we do assert that this situation presents an increased opportunity for the theft of funds to occur and that this opportunity will continue to exist until Parks and Recreation management establishes proper controls, either by implementing our recommendations, as stated below, or by implementing some other equivalent control measures.**

**RECOMMENDATIONS:**

- 1. We recommend that, if possible, a County employee properly receipt all dance class payments at the Oquirrh Park Fitness Center and that the contractor or contractor's staff continue to collect all class registration forms directly from patrons.*
- 2. If recommendation #1 is cost prohibitive, as an alternative, a County employee could make monthly unannounced visits to the class to verify the number of participants. The observed participation level should then be reconciled to the amount of funds collected for the program.*

**Deposits were not made in a timely manner. (EMRC)** East Millcreek used four McBee ledgers to record revenue receipts for various programs. In some of the McBee ledgers, several days of collections accrued before a deposit was made. As a result, the amount of time taken from initial receipt of funds to the date stamped on the deposit slip ranged from one to seven days. The average deposit took 3.5 days to arrive at the bank. Forty-five out of eighty-eight deposits (51%) examined took longer than three days to be deposited. Policy #1062, Section 3.7.2, states, "...all public funds shall be deposited daily whenever practicable but not later than three days after receipt."

The delay in depositing puts funds at greater risk of loss or theft. Since the armored car service comes daily, it is practical for each day's collections to be deposited timely.

**RECOMMENDATION:**

*We recommend that deposits be made no later than three days after receipt.*

**Deposits were not held in a secure location prior to pick-up by the armored car service. (CRC)** At Copperview, after the deposit was prepared, sealed in a bag, and entered into the armored car log, the deposit and log were placed in the front of a file drawer in the bookkeeper's office. The filing cabinet was neither locked nor lockable. In addition, because the bookkeeper left at noon, and the armored car service did not come until afternoon, often there was no one in the office to monitor the file drawer.

While the bookkeeper's office had somewhat limited access, staff routinely entered the office to use the fax machine and typewriter. In addition, the public was often allowed

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to use a telephone located just outside the bookkeeper's office door, near the file cabinet in which the deposit was kept.

The basis for the system of controls outlined in Policy #1062 is individual control and accountability for the funds. When the deposit is placed in an unlocked file drawer, in an unoccupied office, there is no individual control or accountability.

One cause of this situation is that the file cabinet will not lock anymore. The other cause is that procedures have not been modified to ensure individual accountability. This lack of physical security and accountability creates an increased possibility that deposits might be stolen.

#### **RECOMMENDATION:**

*We recommend that a secure location be established for the deposit prior to pick-up by the armored car service and that procedures be established to maintain individual accountability for the deposit until it is picked-up by the armored car service.*

**The bookkeeper performed some cash receipting duties and prepared the daily deposit. (KRC)** The bookkeeper, or merit staff employees at the Kearns Recreation Center, prepared the daily deposit and occasionally engaged in cashiering activities when no one else was available to cover front desk duties. In addition, no independent review of the deposit was completed before the funds were taken to the bank.

The introductory paragraph to Policy #1062, states, *"Through the Management of Public Funds program, functions and responsibilities will be defined to establish internal control. 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."*

For proper internal control, the individual preparing the deposit should not be able to make adjusting entries in the accounting records, even though small staff size might render this impractical. If this level of separation of duties cannot be achieved, it is imperative that a supervisor review both the deposit preparation records and any adjustment made to the accounting records. This review should be documented with the supervisor's signature.

Sound cash management practices and Policy #1062 discourage a single employee from exclusively controlling a monetary transaction (receipt of funds to sealing those funds in the deposit bag). Where proper separation of duties is lacking, the opportunity exists that funds could be diverted to personal use. Additionally, mistakes may be less likely to be identified. However, if separation of duties is not possible, additional supervisory

reviews can mitigate the risk. The deposit should be reviewed, ideally, by someone independent of cashiering duties.

#### **RECOMMENDATIONS:**

*1. We recommend that all deposits be reviewed for accuracy by a supervisor, including recounting the funds and that the supervisor sign the transmittal to document completion of this review, including verification of funds against both the deposit slip and the source documents.*

*2. We recommend that, to the extent possible with available personnel, deposit preparers not receipt funds.*

**Void slips were not always completed properly.** (CRC, EMRC, KRC) Policy #1062, Section 3.5.2.2, states, “*When it is necessary to void a receipt, all copies will be marked ‘void,’ including the original (customer) copy, if available. 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. The voided receipts will be filed in proper numerical sequence and kept for audit purposes.*”

When a receipt is voided, the original receipt and a void slip are attached to the back of the McBee page. Each void slip contains lines for two approving signatures and an explanation. The replacement receipt number is also recorded for cross referencing.

At each of the recreation centers we found void slips that had not been signed by both the cashier and the supervisor. At Copperview, none of the void slips had been signed by a supervisor. At East Millcreek, 34 void slips (29%) were missing one or both approving signatures. In addition, 14 voided transactions (12%) at East Millcreek had no void slip attached. At Kearns, 30% of the examined voids had not been signed by a supervisor. We also noted that a large proportion of the approving “signatures” at all centers were initials only.

The lack of a full, readable signature makes it difficult for an outside party or management to determine responsibility for the transaction. Without consistent supervisory approval, cashiers have ample opportunity to void a valid transaction and embezzle the corresponding funds.

In addition to lack of proper approval, replacement receipt numbers were not recorded consistently on the void slips at Copperview. It is important for replacement receipts numbers to be readily available in order to confirm that money tendered was receipted and properly deposited.

**RECOMMENDATIONS:**

- 1. We recommend that a void slip, signed by the cashier, and reviewed and signed by the supervisor, be completed for all voided transactions.*
- 2. We recommend that replacement receipt numbers be recorded consistently on the void slip.*

**Refund forms did not always contain two approving signatures. (CRC, EMRC, KRC) Two refunds were submitted for payment twice. (EMRC)** Parks and Recreation Administration has an authorized imprest account for the issuance of refunds. When patrons request a refund, a Refund Request form is completed at the center. The form requires two signatures. One signature is for the Program Coordinator initiating the refund request. The second signature is for the Area Director. However, in most instances we noted that the Program Manager signed on the second line. A copy of the McBee page containing the original transaction is attached as documentation. Once a refund form is completed, it is forwarded to Parks and Recreation Administration and the refund check is issued.

During 2003 there were 265 refunds requested by the three centers-Copperview, 93 refunds; East Millcreek, 128 refunds; and Kearns, 44 refunds. Sixty-seven of Copperview's refund forms (72%) contained only one approving signature. At Kearns 14, refund forms (32%) contained only one signature or the same individual signed on both lines. Nine of East Millcreek's refund forms (7%) were missing the second signature.

We also noted at East Millcreek that two refund forms had been submitted twice for identical transactions. Parks and Recreation Administration noted the duplication, however, and only processed one for each. In one of these instances, the two requests were submitted by different program coordinators.

**RECOMMENDATION:**

*We recommend that all refund forms be signed by both the Program Coordinator requesting the refund and the Program Manager.*

**Cashiers were improperly returning patron checks following payment of registration fees. (KRC)** Kearns cashiers accept checks as payment for program registration fees. However, we noted instances where cashiers returned checks to patrons after the check had been receipted into the McBee ledger, in effect creating a refund. In most instances, checks were returned because patrons had changed their mind and did not want their child participating in a certain program. In this scenario checks should not be returned to customers. A refund request should be completed by Kearns Center staff and forwarded to Parks and Recreation Administration, which issues refunds to the customers.

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Countywide Policy #1062, Section 4.1.1, states, "*Cash disbursements such as refunds...will not be made from agency revenue receipts.*"

However, the Kearns' Program Manager indicated that in some cases, patrons tender a check as payment for services and request that the cashier hold it until they are able to deposit money into their account to cover the check amount. After learning that the Kearns Center staff will not hold checks, customers request that their checks be given back to them. In an effort to mitigate the risk of Parks and Recreation Administration issuing refunds to patrons that submit bad checks as payment for services, Kearns staff could, in this limited circumstance, return the check to the customer and void the transaction in accordance with Countywide Policy #1062, Section 3.5.2.2.

We realize that not allowing cashiers to return checks may inconvenience patrons who change their mind and want a refund the same day the payment was collected. However, when cashiers are given individual authority to return checks to patrons, the risk of funds being mishandled is significantly increased. Cashiers should not return checks once they have been receipted to those patrons that simply change their mind.

#### **RECOMMENDATIONS:**

*1. We recommend that Kearns staff discontinue the practice of returning checks to patrons that change their mind, after they have accepted and receipted the checks as payment for services. In the rare instances where patrons indicate that their checks will not be honored as a result of insufficient funds, Kearns Center management may implement a procedure to return patron checks. This procedure must strictly adhere to Countywide Policy #1062 regarding voids.*

**The sequence of pre-numbered McBee receipts had gaps, overlaps, and missing receipts. (CRC)** We examined the sequence of receipts for all McBee ledgers at each of the recreation centers for the period January 1, 2002, through February 10, 2004. Copperview had several instances in which receipt numbering sequence gaps occurred or duplicate receipt numbers were used. Copperview used five McBee ledgers for various programs and advisory boards. These included the Adaptive Advisory Board, Southeast Advisory Board, adaptive therapeutic programs, recreation programs, and sports programs. In addition, a McBee ledger was transported from Copperview to Cottonwood Heights Recreation Center, a non-County facility, to register participants in programs at Copperview.

At Copperview we found 20 instances in 2003 in which an individual receipt was missing in the middle of a used sequence of receipts. We also found larger gaps in which some receipts were not accounted for in particular sets of program McBee ledgers. For example, in the Adaptive Board McBee ledger, receipt numbers 51-55 were used, then a

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gap occurred for receipt numbers 56-77, then receipts 78-100 were used. We also found large gaps in the Cottonwood Heights and the Copperview sports McBee ledgers.

When receipts are missing in a sequence of used receipts, or when large gaps occur in a sequence, a cashier could complete a receipt for a customer who makes a payment, but not place the receipt on the McBee ledger to make a duplicate record of the revenue received. The funds collected could be converted to personal use by the employee. The Copperview bookkeeper kept track of the receipt sequence on the "Transmittal of Funds for Deposit Form," but did not always notice the missing receipts and gaps that occurred in the receipt sequence.

We also found situations in which receipt numbers between program McBee ledgers overlapped. For example, receipt numbers 5054-5100 were used in both the Cottonwood Heights and Copperview recreation McBee ledgers. When duplicate receipt numbers are used at the same recreation center, it becomes confusing and time consuming to account for the numerical sequence of receipts. The bookkeeper explained that duplicate receipt numbers were used because some program McBee ledgers use receipts faster than others and overlapped each other's sequence.

Policy #1062, Section 3.5.2, states, "*The receipt forms will be used in numerical order. Unless specifically provided, no remittance will be receipted in a manner other than by issuance of the prescribed form of pre-numbered receipt. Each receipt will be completed to show all information required on the form.*"

In addition, Policy #1062, Section 3.5.1.1, states, "*The supply of unissued counter receipts will be kept in a safe, locked drawer or secure area. The first and last numbers of receipts should be verified by the Agency Cashier and entered into a receipt log maintained by the agency. As blank receipts are released to cashiers for use, the log should be updated, accordingly.*"

#### **RECOMMENDATIONS:**

- 1. We recommend that a receipt log be maintained to record McBee receipts on-hand at each center, and that the log be updated as receipts are issued to cashiers for use.*
- 2. We recommend that an independent supervisor review the receipt number sequence as part of the deposit preparation process.*

#### **JR. JAZZ PROGRAM RECONCILIATION**

Parks and Recreation offers a variety of programs including Jr. Jazz basketball, an instructional and recreational basketball league for girls and boys, grades 1 through 12. Due to the high volume of participants and revenue collected through this program, we

chose to perform a reconciliation of funds received in the McBee system to Jr. Jazz participant registration forms. We did not perform a reconciliation of all programs due to time constraints.

It is important for each recreation center to have a strong internal control environment that provides reasonable assurance that records of Jr. Jazz, and other program usage are maintained to facilitate verification of collections. During this reconciliation process, we found the following weaknesses.

- **Program funds collected did not equal amounts that should have been collected according to registration forms. (CRC, KRC, EMCR)**
- **Reduced-fee documentation was not always attached to the registration form. (CRC, KRC, EMCR)**
- **Registration forms were not completed correctly by center staff. (CRC, KRC, EMCR)**
- **Jr. Jazz accounts receivable were not properly managed by the Kearns Recreation Center staff.**

**Program funds collected did not equal amounts that should have been collected according to registration forms. (CRC, KRC, EMCR)** To reconcile Jr. Jazz registrations to fund collections, we compiled a list of receipts recorded on the McBee ledgers at the centers. We also reviewed the team rosters and accompanying registration forms for Jr. Jazz at each center. We matched each registration form to a team roster and to the McBee receipt. The money received for registration at each of the three centers, as noted on the McBee receipts, was totaled and compared to the total of the amounts written, when available, on the registration forms. In all cases, total collections, per McBee ledger, exceeded total collections based on the sum of individual registration forms. At East Millcreek, approximately 142 individuals on the McBee ledgers could not be matched to registration forms. However, the number of participants per the team rosters appeared to match total revenue. At Copperview, Jr. Jazz registration collections recorded in the McBee ledger were \$64,653 but the registration forms indicated that only \$64,359.50 was collected, a difference of \$293.50.

The discrepancies were researched but not all the receipts could be matched to a registration form. By reconciling the McBee receipts for the Jr. Jazz program, or any other program, to the registration forms for each participant, the centers can be sure that each player has paid his or her entrance fees and that no funds have been diverted.

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**RECOMMENDATION:**

*We recommend that money receipted be reconciled with participant registration forms.*

**Reduced-fee documentation was not always attached to the registration form. (CRC, KRC, EMCR)** Some children who join Jr. Jazz are eligible for reduced registration fees by virtue of their family income. This eligibility must be documented with either a form from the school verifying reduced lunch, or with some other document validating income within the parameters. Of all the registration forms showing reduced fees, we found 42 that did not have accompanying eligibility documentation. Without this documentation, cashiers may be able to receipt a normal fee amount, record the transaction at the lower amount and then keep the difference. By attaching the verifying documentation to the registration form, the centers can ensure that each eligible participant is paying the correct amount, and that reduced registration fees, as indicated on the form, are valid.

**RECOMMENDATION:**

*We recommend that each participant eligible for a reduced fee have documentation attached to the registration form verifying eligibility, and that the Program Coordinator verify the presence of this documentation during the reconciliation process discussed above.*

**Registration forms were not completed correctly by center staff. (CRC, KRC, EMCR)** At the bottom of each registration form, there is space for the center employees to record the McBee receipt number and the amount paid for registration. Many of the registration forms were not completed correctly by the center staff. The receipt numbers were missing or incorrect, and/or the amount received was missing or incorrect. When registration forms are completed correctly, payment and participation information is readily available for reconciliation and verification. By recording a receipt number on registration flyers, an audit trail is created to ensure that all participants have paid and that all payments are recorded and deposited.

**RECOMMENDATION:**

*We recommend that each registration form be filled out completely, with the receipt number and the correct amount for the registration entered into the designated area at the bottom of the sheet.*

**Jr. Jazz accounts receivable were not properly managed by the Kearns Recreation Center staff.** At the time of our audit, there were seven delinquent Jr. Jazz accounts receivable that had not been collected. In each case, Kearns Center staff had the patron sign an installment agreement to pay the balance outstanding.

However, these accounts were not properly managed. The Kearns Center Program Coordinator did not monitor the accounts. It was only during our review of the Jr. Jazz program that we identified the delinquent accounts.

The accounts should have received earlier, more consistent follow-up collection efforts by the Kearns staff, including referral to the District Attorney's Office for collection. In addition, the Kearns Center does not have any written policies and procedures relating to accounts receivable. Written policies and procedures provide the basis for actions taken by management, actions which otherwise may be haphazard or inconsistent.

**RECOMMENDATIONS:**

- 1. We recommend that Parks and Recreation Management consider turning over delinquent accounts to the District Attorney's Office for additional collection effort.*
- 2. We recommend that Parks and Recreation Administration or Kearns Recreation Center management develop and implement written policies and procedures that address accounts receivable.*

**PETTY CASH AND CHANGE FUNDS**

We completed an unannounced count of the change funds and petty cash accounts. The following table summarizes the accounts at each center.

	<b>CRC</b>	<b>EMRC</b>	<b>KRC</b>
<b>Change Fund</b>	X		X*
<b>Petty Cash Account</b>	X	X	X
<b>Adaptive Program Petty Cash</b>	X		

\*A \$75 change fund used at Vista Park is assigned to the Kearns Recreation Center.

Significant findings identified during our review were:

- **The change machine fund located at the East Millcreek Recreation Center was an unauthorized change fund.**
- **The Copperview District Petty Cash Account was \$7.99 short and receipts were not returned to the custodian in a timely manner.**

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**The change machine fund located at the East Millcreek Recreation Center was an unauthorized change fund.** East Millcreek has a change machine located under the counter in the cashier's office. The \$50 maintained in the machine is not listed with, nor authorized by, the Auditor's Office. The Program Manager told us that the fund has been in existence for at least six years.

The Center has no other change fund and does not give change for payments received by the cashier. The Center uses the change machine solely to make change for the vending machine. It is a public fund and needs to be set up and accounted for as an authorized change fund through the Auditor's Office. Countywide Policy #1203, "Petty Cash and Other Imprest Funds," describes the process, in Sections 2.0 through 2.3, for formally setting up an authorized fund.

**RECOMMENDATION:**

*We recommend that the \$50.00 change fund in the change machine be formally established with the Auditor's Office in accordance with policy.*

**The Copperview District Petty Cash Account was \$7.99 short and receipts were not returned to the custodian in a timely manner.** At the time of the petty cash count, the fund was short \$44.24. Custody was recently assigned to the new Program Manager, but the fund was not counted and reconciled before she took custody of it.

The new Program Manager later informed us that she found a petty cash receipt in her desk that had been left by the former director. At the time of the closing conference we observed a receipt dated December 10, 2003, for \$36.25. This reduced the amount of the fund shortage to \$7.99. Policy #1203, Section 3.9, states, "*Any unaccounted-for funds (shortages) shall be investigated immediately. The custodian, after appropriate investigation, may be required to personally replenish the shortage, depending on the circumstances. If the shortage appears to relate to a theft, it shall be reported in accordance with Countywide Policy #1304 - Discovery and Reporting of Thefts. Any shortages not resolved immediately shall be explained in a letter to the Mayor. The Auditor will reimburse requests to replenish accounts resulting from shortages if authorized by the Mayor through this procedure.*"

In addition, on the day of our count, we observed a \$100 petty cash voucher with no receipt attached that had been outstanding for two months. The employee later produced a receipt for \$90.54 and change of \$9.46, thereby satisfying documentation requirements for this transaction. Policy #1203, Section 3.11.2, states, "*Sales receipts, invoices, etc. received at the time of the purchase are to be returned to the custodian along with any 'change' (unspent money) from the transaction.*"

## **RECOMMENDATIONS:**

- 1. We recommend that a letter be written to the Mayor requesting replenishment of the \$7.99 shortage in the petty cash fund at Copperview.*
- 2. We recommend that receipts be returned to the petty cash custodian in a timely manner following the purchase.*

## **VENDING OPERATIONS**

Each of the three centers we audited has vending machines that are managed by County employees. During our interviews with center staff, and our observations of vending operations, we noted the following finding:

- **Vending machine operations, from the purchase of products through inventory and retrieval of collections, was improperly concentrated in a single individual. (CRC, EMRC, KRC)**

**Vending machine operations, from the purchase of products through inventory and retrieval of collections, was improperly concentrated in a single individual. (CRC, EMRC, KRC)** At Copperview and East Millcreek, we noted that the employee responsible for vending retrieved the revenue collections from the vending machine, kept an inventory of vending products, purchased vending inventory, and prepared a vending reconciliation form. In addition, this employee alone counted collections retrieved from the machine. No supervisor reviewed the vending inventory form to ensure that the amount deposited reconciled to sales according to the vending inventory. At Kearns, the same employee performed all the functions above, except no reconciliation form was completed.

As mentioned before, 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, giving due consideration to the risks involved and the cost of maintaining controls. Established internal controls work to provide reasonable assurance that daily transactions are executed in accordance with prescribed managerial policies and that errors and omissions are detected.*"

Vending machines present significant opportunity for employees to embezzle funds. Therefore, two employees should be present when collections from the machine are retrieved and counted. The collection count should be documented and signed by both

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employees who conducted the count. In addition, the inventory reconciliation should be signed by the employee who performed it, and reviewed and signed by a supervisor.

**RECOMMENDATIONS:**

- 1. We recommend that two individuals be present when vending revenue collections are retrieved from the vending machine and counted.*
- 2. We recommend that the individual performing the inventory reconciliation sign the reconciliation form and that the Program Manager review and sign the vending reconciliation form to indicate an independent review.*

We appreciate the cooperation and assistance received from recreation staff during our audit. We are confident our work will be of benefit to you as you endeavor to make changes to strengthen internal controls at each recreation center. If we can be of further assistance to you, please contact us.

Sincerely,

Craig B. Sorensen  
Salt Lake County Auditor

Cc: Steve Harmsen  
David Marshall  
Randy Allen  
Leslie Reberg  
Paul Ross  
Maynard Koncar  
Debra Butler  
Darian Abegglen  
Jan Donchess  
Colette Colovich