



July 11, 2012

Peter Corroon, Mayor  
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Re: An Audit of the Holladay Lions Fitness and Recreation Center

Dear Mayor Corroon:

We recently completed an audit of the financial records of the Holladay Lions Fitness and Recreation Center (Holladay). The purpose of the audit was to examine areas of financial and asset management to determine if financial records were accurate and complete, internal controls were functioning as intended, and County assets were properly safeguarded.

Our work was designed to provide reasonable, but not absolute assurance that the system of internal controls was adequate, records current, and daily transactions valid. Since our audit included only a sample of items from the period examined, there is a risk that we would not have discovered problems related to assets or transactions not specifically selected for review.

Audit criteria included Countywide Policies (CWP) such as CWP 1062, *Management of Public Funds*, CWP 1125, *Safeguarding Property/Assets*, CWP 1220, *Management of Accounts Receivable and Bad Debt Collection*, and Parks and Recreation internal policies and procedures.

### **Scope and Objectives**

#### **Audit Scope**

Our audit covered the period from June 1, 2011 to May 31, 2012. However, the time period may have been adjusted to include any relevant information, records, or data from outside this period, as appropriate.

The audit included an examination of assets, records, and transactions in the following areas:

- Change Funds, Petty Cash, and Other Imprest Accounts
- Cash Receipting and Depositing
- Capital and Controlled Assets
- Accounts Receivable
- Merchandise Sales, Inventory, and Concessions

#### **Audit Objectives**

The audit objectives, findings, and recommendations, in each of the areas we examined are as follows:

## **Objectives, Findings, and Recommendations**

### **Objective 1: Change Funds**

- Determine if the change fund is intact and maintained at the authorized amount.
- Determine if the change fund is properly safeguarded.

Holladay has an authorized change fund amount of \$800.00. This fund is used by cashiers at Holladay to make change for customers and patrons. We performed a surprise count of the change fund that compared the total cash on hand, less the reported daily collections amount, to arrive at the remaining change fund balance. We found that the change fund was intact and maintained at the authorized amount.

We also interviewed the staff at Holladay and reviewed change fund procedures with them. We found that the change fund was properly safeguarded while in use and when it was not in use. Cashiers at Holladay documented transfers of change funds, and confirmed change fund balances at the beginning and end of their shifts using an appropriate form. We also determined that the staff at Holladay was knowledgeable of Countywide Policies and followed appropriate cash management procedures.

#### **Finding(s):**

*None.*

### **Objective 2: Petty Cash**

- Determine if petty cash is intact and maintained at the authorized amount.
- Determine if petty cash is properly safeguarded.
- Determine if petty cash purchases are appropriate and comply with Countywide Policy.

Holladay has an authorized petty cash amount of \$500.00. Petty cash funds are established to allow County agencies to purchase small-cost items that are of such nature that the normal purchase order is not cost effective. Countywide Policy currently limits disbursements from petty cash to no more than \$200.00 per transaction. CWP 1203, *Petty Cash and Other Imprest Funds*, outlines the proper management of, and the limitations on using petty cash funds.

We performed a surprise count of petty cash at Holladay that compared total cash on hand, plus total disbursements from petty cash, to arrive at the authorized petty cash amount. We found that petty cash was intact and maintained at the authorized amount.

We interviewed the Petty Cash Custodian at Holladay and reviewed petty cash procedures with her. We found that petty cash was properly safeguarded and that it was only accessible to the Petty Cash Custodian, or designee in her absence. Holladay uses a "*Petty Cash Account Reimbursement & Control Listing*," form to request reimbursement of petty cash when funds have been depleted. We found that all of Holladay's current petty cash disbursements were supported with receipts.

Although all of the petty cash vouchers we examined were dated, reviewed, and supported with purchase receipts, we found that individual vouchers were not numbered sequentially. We

discussed numbering petty cash vouchers sequentially with the Petty Cash Custodian, as an additional control. She agreed with our observations, and stated that Holladay would number all petty cash vouchers going forward. We also reviewed recent petty cash reimbursement requests, and found that petty cash purchases were supported with receipts, seemed appropriate, and were below the current \$200.00 authorized limit.

**Finding(s):**

*None.*

**Objective 3: Cash Receipting and Depositing**

- Determine if cash receipting and depositing procedures comply with Countywide Policy.
- Determine if daily cash collections and deposits are properly safeguarded.

Our audit examined cash handling and depositing procedures at Holladay to determine if those procedures complied with Countywide Policies. We also examined whether or not daily collections were properly accounted for and adequately safeguarded against the risk of loss or theft. CWP 1062, *Management of Public Funds*, establishes procedures for receiving, recording, depositing, and disbursing public funds and defines functions and responsibilities to establish and strengthen internal controls over these procedures.

We observed cash receipting procedures at Holladay, and reviewed those procedures with staff members. Holladay uses the SportsMan collections receipting system, and we found that the system was appropriate for the volume and complexity of transactions that Holladay processes on a daily basis. Cashiers were aware of Countywide Policies concerning the management of public funds, and we found that daily collections were properly safeguarded.

To determine if depositing procedures complied with Countywide Policies, we selected a statistically valid random sample of deposit dates to examine. The sample contained 42 days of deposit documentation that we analyzed to verify that amounts collected per the “*Cash Register Batch Deposit Reports*” matched the amounts reported on Cashiers’ “*Daily Cash Balance Sheets*.” We also verified that the total amount of cash and check collections were deposited each day, and that deposits were made no later than three days after receipt in accordance with Countywide Policy.

We interviewed the staff at Holladay and reviewed depositing procedures with them. We found that deposits were properly safeguarded and were made within three days after receipt, where practical. We discovered five (5) deposit overages and/or shortages in the sample. However, overages and/or shortages were minimal in nature, properly documented by the cashiers on daily cash balance sheets, and reviewed by management. Deposit documentation was very well organized, complete, and accurate. Overall, we found that depositing procedures at Holladay complied with Countywide Policy.

**Finding(s):**

*None.*

#### **Objective 4: Capital and Controlled Assets**

- Determine if Capital Assets are identified accurately, physically present, and accounted for properly.
- Determine if Capital Assets are properly safeguarded.
- Determine if Controlled Assets are identified accurately, physically present, and accounted for properly.
- Determine if Controlled Assets are properly safeguarded.
- Determine if asset management practices comply with Countywide Policy.

The audit included an examination of the management of County property and assets, under Holladay's control, that are necessary for the center to operate and achieve its organizational objectives. CWP 1125, *Safeguarding Property/Assets*, establishes the proper management of County capital (fixed) and controlled assets, including procedures for accounting for, protecting, and disposing of those assets.

We obtained a current "*Salt Lake County Fixed Asset by Organization*," report for Holladay, and determined that fixed assets were identified accurately, physically present, and accounted for properly. Holladay receives a listing of fixed assets annually from Parks and Recreation. The Program Director at Holladay verifies that the fixed assets on the list are accounted for and sends the report back to Parks and Recreation. Holladay's last fixed assets inventory was completed in April 2012.

CWP 1125, defines a controlled asset as an item of personal property having a cost of \$100 or greater, but less than the current capitalization rate. Controlled assets can be susceptible to conversion to personal use, and therefore require special procedures to ensure that they are properly safeguarded. The Property Manager at each County organization is responsible for accounting for all controlled assets within the organization's operational and physical custody (CWP 1125, 2.2.2, p. 2).

In addition, we reviewed a sample of 40 controlled assets from Holladay's "*Controlled/Fixed Assets Inventory Log*." For each of the items in the sample, we verified that the description, make, model, and location recorded on the log, was up-to-date and accurate. We were able to find and verify all 40 items in our controlled asset sample. Holladay conducted its last annual inventory of fixed and controlled assets in April 2012.

We reviewed fixed and controlled asset management procedures with the Program Director at Holladay. We found that the staff at Holladay was knowledgeable of Countywide Policies and followed appropriate fixed and controlled asset management procedures. Overall, we found that County property and assets located at Holladay were managed properly and were adequately safeguarded against the risk of loss or theft.

#### **Finding(s):**

*None.*

#### **Objective 5: Accounts Receivable**

- Determine if credit is granted to County customers and patrons as defined in Countywide Policy 1220, *Management of Accounts Receivable and Bad Debt Collection*.

- Determine if the management of accounts receivable complies with Countywide Policy.
- Determine if payments received for accounts receivable are properly recorded, safeguarded, and deposited in compliance with Countywide Policy.
- Determine if collection activities on all past due accounts comply with Countywide Policy.

As part of the normal audit process, we review accounts receivable at County agencies to determine if the management of those accounts complies with Countywide Policies and if payments received are properly recorded, safeguarded, and deposited in a timely manner. In the case of Holladay, we were provided with an “*Outstanding Balances Report*,” obtained from SportsMan. The report detailed all customer outstanding balances as of the date of the report which was July 9, 2012.

Holladay hosts numerous County sports programs, and provides fitness and recreation activities for County residents. In addition, Holladay offers room rentals and facility reservations for community groups and private events. Payment for facility rentals and enrollment in sports programs and classes is expected in full at or before the time that goods or services are provided. Facility rentals are documented with formal agreements and payment for the rental is to be paid in full prior to the event.

After reviewing the “*Outstanding Balances Report*,” we determined that although Holladay requires that customers and patrons make payment in full at or before the time that goods and services are provided, the total outstanding balances still owed on customer accounts was \$11,959. Our finding in the area of accounts receivable is as follows:

- ***Outstanding balances on customer accounts were not managed in accordance with Countywide Policies or turned over to the District Attorney after 90 days past due.***

We compiled an accounts receivable aging schedule based on the “*Outstanding Balances Report*,” obtained from SportsMan. In our analysis, we found that 88% (\$10,486) of the total outstanding balances were more than 180 days past due. Furthermore, outstanding balances that were more than one year past due made up 76% (\$9,100) of the total \$11,959 accounts receivable balance. Table 1, below, summarizes the results of the accounts receivable aging schedule below.

Past Due	Amount Outstanding
<b>0 – 30 Days</b>	<b>\$136.00</b>
<b>31 – 60 Days</b>	<b>865.00</b>
<b>61 – 90 Days</b>	<b>35.00</b>
<b>91 – 120 Days</b>	<b>312.50</b>
<b>121 – 150 Days</b>	<b>94.50</b>
<b>151 – 180 Days</b>	<b>30.00</b>
<b>181 – 365 Days</b>	<b>1,385.92</b>
<b>&gt; 365 Days</b>	<b>9,100.29</b>
<b>Total</b>	<b>\$11,959.21</b>

**Table 1.** *Seventy-six percent (76%) of the total outstanding balances were more than one year past due.*

We determined that there were numerous account adjustments on the “*Outstanding Balances Report*,” resulting from “*Adjustment on Account*,” entries in SportsMan. It is possible that outstanding customer account balances may have been caused by unresolved customer account issues at Holladay. The scope of our audit work was limited to meeting our audit objectives; therefore we did not investigate the cause for each outstanding balance on each customer account.

CWP 1220, *Management of Accounts Receivable and Bad Debt Collection*, establishes the procedures for granting credit, record keeping, and collecting accounts receivable at the agency level. County departments and agencies are required to take all appropriate and cost effective actions to aggressively collect accounts receivable, including assessing related collection costs, interest, penalties, or fees (CWP 1220, 4.0, p. 5).

After all reasonable collection efforts have been exhausted at the agency level; uncollectible accounts receivable should be written off and transferred to the District Attorney’s Collection Unit. Agencies may transfer problem accounts no sooner than 90 days after an account becomes past due, unless legal action requires that an account be transferred sooner (CWP 1220, 6.1, p. 10). Collection costs should be considered before the account is transferred, and therefore amounts under \$50 should not be transferred (CWP 1220, 6.1.1, p. 11).

We discussed current accounts receivable management and collection practices at Holladay with the Program Director. He stated that current accounts receivable practices have been improved and internal controls have been strengthened. For example, all current facility rentals are documented with written agreements and are required to be paid in full prior to the date of the event. This was supported by the audit evidence, which indicated that the majority (76%) of Holladay’s outstanding balances were more than a year past due. With this in mind, it does seem that Holladay is collecting on customer accounts that are more current.

**RECOMMENDATION:**

*Holladay should identify all past due customer accounts that meet the criteria for being transferred to the District Attorney’s Office and ensure that all uncollectible customer accounts are either written off or transferred to collections according to Countywide Policy.*

**Objective 6: Merchandise Sales, Inventory, and Concessions**

- Determine if internal controls over inventory purchasing are adequate and functioning as intended.
- Determine if inventory is safeguarded against the risk of loss and/or theft.

We reviewed merchandise sales, inventory, and concessions with the staff at Holladay. Merchandise sales are limited to only a few items, and we spot-checked a few merchandise inventory items against Holladay’s merchandise inventory records. Purchasing is handled by one staff member and payment for purchases is approved by the Program Director. We found that merchandise inventory items were properly accounted for and that inventory items were adequately safeguarded against the risk of loss or theft.

Holladay operates one County-owned vending machine. We reviewed vending machine purchasing and vending machine inventory procedures with staff. We found that vending machine

inventory items are properly accounted for and adequately safeguarded against the risk of loss or theft.

**Finding(s):**

*None.*

We appreciate the time spent by the staff at Holladay answering our questions, gathering the necessary documentation and records, and allowing us access to the center during our audit. The staff at Holladay was friendly, courteous, and very helpful throughout the audit process. We trust that implementation of these recommendations will provide for more efficient operations and better safeguarding of County assets. Please feel free to contact me if you have any further questions.

Sincerely,  
Gregory P. Hawkins  
Salt Lake County Auditor

By: \_\_\_\_\_

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Chief Deputy Auditor

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