



June 29, 2012

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

Dear Mayor Corroon:

We recently completed an audit of the Redwood Fitness and Recreation Center (Redwood). 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 May 1, 2011 to April 30, 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.

Redwood has an authorized change fund amount of \$150.00. This fund is used by cashiers at Redwood 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 Redwood 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 Redwood 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 Redwood was knowledgeable of Countywide Policies and followed appropriate cash management procedures.

Findings:

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.

Redwood 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 Redwood 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 Redwood 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. Redwood uses a "*Petty Cash Account Reimbursement & Control Listing*" form to record petty cash disbursements and track petty cash vouchers. We found that Redwood's current form was complete and up to date; with petty cash vouchers filled out properly and numbered sequentially. 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.

Findings:

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 Redwood to determine if those procedures complied with Countywide Policies. We also examined whether or not daily collections are 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 Redwood, and reviewed those procedures with staff members. Redwood uses the SportsMan collections receipting system, and we found that the system was appropriate for the volume and complexity of transactions that Redwood 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 45 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 Redwood 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 13 deposit overages and/or shortages in the sample. However, overages and/or shortages were minimal in nature, properly documented by the cashiers on over/short logs, and reviewed by the bookkeeper at Redwood. Deposit documentation was complete and accurate, and overall, we found that depositing procedures complied with Countywide Policy.

Findings:

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 Redwood'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 Redwood, and verified the description, make, model, and location for each of the fixed assets on the list. In addition, we reviewed a sample of controlled assets from Redwood'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. Redwood conducted its last annual inventory of fixed and controlled assets on March 6, 2012.

Overall, we found that County property and assets located at Redwood were managed properly and were adequately safeguarded against the risk of loss or theft. However, during the audit we noted the following findings:

- ***A LifeFitness treadmill on Redwood's Capital (Fixed) Asset List could not be found.***
- ***Some items listed on Redwood's Controlled Asset List could not be found, or were not tagged properly.***

A LifeFitness treadmill on Redwood's Capital (Fixed) Asset List could not be found. During our examination of fixed and controlled assets at Redwood, we could not locate a LifeFitness brand treadmill listed on the "*Salt Lake County Fixed Asset by Organization,*" report. The treadmill had a historical cost of \$5,399 and was acquired on November 15, 2005.

The most recent asset inventory at Redwood was performed on March 6, 2012, but at the time of our audit, the Property Manager had no record of a Form PM-2 being submitted for the missing treadmill. The treadmill had remained on the fixed asset inventory report despite the fact that it could not be identified at the center.

Through further investigation, we were able to obtain a copy of the original Form PM-2 that was submitted when the treadmill was disposed of on March 15, 2010, from the Mayor's Office of Financial Administration. Redwood had submitted a *Form PM-2, "Salt Lake County Personal Property Transfer/Disposal/Internal Sale Form,"* when the LifeFitness treadmill was disposed of in 2010. However, the treadmill remained on the "*Salt Lake County Fixed Asset by Organization,*" report, possibly as the result of an accounting entry mistake or error.

Part of the Property Manager's duties at each County agency includes accounting for all fixed assets within the organization's operational and/or physical control as listed on the "*Salt Lake County Fixed Asset by Organization,*" report (CWP 1125, 2.2.1, p. 2). In addition, each Property Manager should conduct an inventory of fixed and controlled assets at least annually, to ensure complete accountability for all property owned by, or assigned to the organization (CWP 1125, 2.2.11, p. 3).

Inaccurate fixed asset records could cause confusion regarding the status of assets and allow assets that have been disposed of to continue to be depreciated. Furthermore, there is the risk that a fixed asset that is not accounted for properly could be lost, stolen, or misappropriated by employees.

RECOMMENDATION:

The Property Manager at Redwood should contact Parks and Recreation management and the Mayor’s Office of Financial Administration, to have the treadmill removed from their listing of fixed assets.

ACTION TAKEN:

The Property Manager at Redwood was made aware of the finding and a copy of the original Form PM-2, submitted when the treadmill was disposed of, was given to her. The Property Manager agreed that she would take the necessary steps to have the treadmill removed from their listing of fixed assets.

Some items listed on Redwood’s Controlled Asset List could not be found, or were not tagged properly. We reviewed a sample of 76 different items from Redwood’s “Controlled/Fixed Assets Inventory Log,” during our examination of controlled assets. We verified the description, make, model, and physical location of those controlled assets at the center. However, during our inventory of those assets in the sample, some items listed could not be found, and other items that appeared on the list were not tagged properly.

Prior to a recent remodel at Redwood, office furniture that had been tagged and identified on Redwood’s controlled asset log may have been disposed of during the remodel. When the office furniture was replaced, the new furniture may have been included in the capitalized costs of the remodel, and therefore the new items were not tagged and recorded on Redwood’s controlled asset log. We noted several desks and office chairs that could not be identified on the controlled asset log.

We also noted several fitness equipment items throughout the center that were not tagged properly. The Property Manager did state that due to the amount of use that fitness equipment items receive, it was hard to keep asset control tags in place on those items at all times. Table 1, below, shows a summary of some of the fitness equipment items that were not tagged properly at the time of the audit.

Description	Make and Model	Cost	Control Tag No.
Treadmill	Precor C956i/C966i	\$4,200.00	211
Elliptical w/Arms	Precor EFX546i	\$3,800.00	275
Elliptical	Precor EFX546i	\$3,700.00	276
Elliptical	Precor EFX546i	\$3,700.00	277
Elliptical	Precor EFX546i	\$3,700.00	278

Table 1. Several items on Redwood’s “Controlled/Fixed Assets Inventory Log,” were not tagged properly.

Countywide Policy 1125, “Safeguarding Property/Assets,” 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).

Property Managers at each County organization should conduct an inventory of fixed and controlled assets at least annually, to ensure complete accountability for all property owned by, or assigned to the organization (CWP 1125, 2.2.11, p. 3). Use of a numbering system for controlled assets is optional, and Redwood has implemented a system of placing numbered control tags on controlled assets to identify them. A controlled asset inventory is performed annually at Redwood, and the last inventory was completed on March 6, 2012.

Controlled assets that are not identified properly, such as fitness equipment items that are missing control tags, creates a risk that those items may not be accounted for correctly. Inaccurate controlled asset records could cause confusion regarding the status of assets and creates the risk that controlled assets could be lost, stolen, or possibly converted to personal use by County employees.

RECOMMENDATION:

The Property Manager at Redwood should identify all controlled assets that are missing control tags and ensure that tags are placed on those assets. The Property Manger should also update Redwood's "Controlled/Fixed Assets Inventory Log," as soon as possible, whenever controlled assets are disposed of or transferred.

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 Redwood, 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 May 20, 2012.

Redwood hosts numerous County sports programs, and provides fitness and recreation activities for County residents. In addition, Redwood 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 Redwood 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 \$18,546. 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 24.5% (\$4,549) 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 19.7% (\$3,650) of the total \$18,546 accounts receivable balance. Table 2 summarizes the results of the accounts receivable aging schedule below.

Past Due	Amount Outstanding
0 – 30 Days	\$3,598.50
31 – 60 Days	5,041.50
61 – 90 Days	1,203.00
91 – 120 Days	335.00
121 – 150 Days	3,544.00
151 – 180 Days	275.00
181 – 365 Days	899.00
> 365 Days	3,649.70
Total	\$18,545.70

Table 2. *Almost 20% of the total outstanding balances were more than one year past due.*

Outstanding balances on customer accounts that were more than one year past due ranged from as little \$2 to as high as \$424. 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 Redwood with the Program Director. She acknowledged that in the past, due to the demographics of the customers and patrons that Redwood serves, collection efforts were extremely difficult, if not impossible in some circumstances. The Program Director also 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. Redwood also no longer accepts only partial payments for sports programs or fitness classes.

RECOMMENDATION:

Redwood 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 Redwood. At the time of our audit, the swimming pool concessions booths were not yet operational for the summer season. Merchandise sales are limited to only a few items, and we spot-checked a few merchandise inventory items against Redwood'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.

Redwood 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.

Findings:

None.

We appreciate the time spent by the staff at Redwood answering our questions, gathering the necessary documentation and records, and allowing us access to the center during our audit. The staff at Redwood 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: _____

Lonn Litchfield
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