

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



An Audit of the Key Controls of
Acord Ice Center

April 10, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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April 10, 2013

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

Re: An Audit of the Key Controls of Acord Ice Center

Dear Mayor McAdams:

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

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

We appreciate the time spent by the staff at Acord Ice Center and the cooperation from Will Kocher, Acord Ice Center Director, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Acord Ice Center during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Michele Nekota, Division Director
Paul Ross, Associate Division Director
Will Kocher, Acord Ice Center Director



Objectives

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

Conclusion

We found effective controls in place at Acord Ice Center, including supervisory review of balance sheets and deposit documentation, as well as processes to account for capital and controlled assets, and merchandise inventories. We noted a few exceptions, as detailed in this letter. Our biggest concern was a \$280 change fund shortage. Management was not aware of established change fund limits. Aside from the change fund issue, risks identified are minor and would not be expected to result in material loss of County Assets.

Findings, Recommendations, and Management Responses

Finding # 1 - The change fund did not balance to its authorized limit.

Risk Level: High

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Sections 5.2.1 and 5.2.2.1 state, "Upon discovery of any shortages, an investigation shall be conducted by the Custodian and his/her supervisor...Any unresolved shortages greater than \$10.00 shall be explained in writing to the Mayor, along with a request to approve reimbursement of the shortage."

We counted \$920 in the change fund compared to its authorized limit of \$1,200, a shortage of \$280.

The Acord Ice Center Director stated that the fund has been at its current amount since he started working at the center two years ago, and that staff has never discovered any funds as missing. Funds are kept in separate bags with a designated limit for each bag. Focus was directed on bag limits, and therefore, there was a lack of awareness of how much the fund in total should be.

When a change fund is not at its authorized limit, it may indicate that funds have been stolen. The risk is increased if management is not aware of the authorized change fund amount. Any theft could easily remain concealed, and it is more difficult to conduct an audit.

Recommendation

We recommend that the Acord Ice Center Director follow the procedures in Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 5.2.2.1, and write a letter to the Mayor explaining that a portion of this fund, as authorized, cannot be located, and requesting that the fund either be reimbursed or re-established at a new limit.

Management Response

The change fund amount of \$920 was what was signed for and on hand when the fund exchanged hands from the previous manager to Will Kocher. The paper work at that time did not list the authorized limit. Additionally documentation prior to the change fund changing hands shows the change fund as being consistent with the \$920 on hand. A letter of explanation will be written asking that the Acord Ice Center change fund be re-established at its current limit of \$920.

Finding # 2 - The merchandise inventory conducted by Acord Ice Center staff did not show shrinkage since the last inventory.

Risk Level: High

Standard business practice requires comparison to the count that should be on hand, as determined by prior inventory plus purchases minus sales (cost of goods sold). Alternatively, an expected inventory on hand can be calculated from the prior count plus purchases minus the current count. The resulting sum is then multiplied by retail price and compared to actual sales since the last count.

The merchandise inventory procedure did not result in a difference between the actual count and the count that should have been on hand.

The current inventory management system does not allow for perpetual counts, meaning electronic tracking of inventory additions and reductions resulting from sales. Goods sold are not identified by type within the Sportsman system. Though currently lacking this capability, the system may soon be upgraded to allow for electronic tracking, including bar-coded tags on merchandise.

Absent reporting of inventory shrinkage, management cannot effectively determine whether theft has occurred. The count therefore lacks meaning otherwise achieved by determining unexplained losses of goods.

Recommendation

We recommend installation of a perpetual, electronic inventory management system. In the meantime, we recommend that expected inventory on hand be multiplied by retail cost per item and the total compared to actual sales since the last inventory. Expected inventory is the sum of the last inventory count plus purchases minus the current inventory count.

Management Response

Sportsman inventory control system has been purchased and pro shop is currently being converted to bar code system to rectify issues.

Finding # 3 - Copies of Form PM2s were not maintained on file at Acord Ice Center.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.7 lists as one of the property manager duties the following: "Maintain copies of all... PM-2...forms for all fixed asset personal property transferred, disposed, and sold internally."

Copies of the Form PM2, Salt Lake County Personal Property Transfer/Disposal/Internal Sale, were not maintained on file at the Acord Ice Center for use in referencing items no longer on hand.

Management was not aware of the need to file the Form PM2. Normally, it is signed and sent to other agencies, such as the surplus office, for processing without copies being made.

Disposal of equipment cannot be efficiently tracked when the agency where the asset originated from does not maintain paperwork documenting its disposal. PM2s may indeed be on file at the administrative office, but these are difficult to locate as PM2s from all Recreation centers are also kept on file.

Recommendation

We recommend that copies of Form PM2s, noting disposal of capital and controlled assets, be maintained at the Acord Ice Center.

Management Response

It was our impression that the hard copies that were submitted at the time of surplus were sufficient record but will now keep photo copies and follow the recommendation as specified.

Finding # 4 - The mail was not opened by two employees to verify and note any checks received.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.1.5 states, "Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

Mail is opened by one employee alone, and any checks received taken to the front counter for entering into the Sportsman system. In addition to one person opening the mail, no log of mailed-in checks received is maintained.

A relatively small operation coupled with minimal personnel caused the mail to be opened by one individual. Contained within a small area, the front desk and office would not ordinarily allow the actions of a single individual to go unnoticed.

Nevertheless, two people not opening the mail could result in an individual stealing a check and diverting it to personal use.

Recommendation

We recommend that two people open the mail and any checks received be recorded in a log that is signed by both people.

Management Response

We are following recommendation as specified.

Finding # 5 - A change fund log was not kept to record each time the fund was removed from and returned to the safe.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 2.7.3 states, "Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox."

A log was not kept with each change fund bag documenting each person taking and returning the bag to and from the safe, and the amount counted in each instance.

Acord Ice Center personnel were not aware of the need for or usefulness of the change fund log in tracking its removal and return to the safe.

Without the log, however, accountability for any missing funds is not achieved. A log could have helped explain the shortage described in Finding #1.

Recommendation

We recommend that a log be kept for each change fund bag where employees enter the amount counted and sign for it each time it is removed from and returned to the safe.

Management Response

We are following recommendation as specified.

Finding # 6 - Over/Short Logs were not signed by a Supervisor.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 5.3.1.3 states, "The MPF Form 11, for each Cashier, shall be signed by the Cashier's immediate supervisor."

The MPF Form 11, Cash Over/Short Log, was not signed by the supervisor as evidence of review.

The lack of a supervisor's signature was a simple management oversight. As management was aware of any balancing variances on any individual day, the need for signing these logs was not apparent.

When the supervisor does not review the Over/Short log, significant patterns in balancing variances may remain undiscovered. Corrective action would therefore not be taken.

Recommendation

We recommend that all monthly over/short logs be signed by the cashier's supervisor.

Management Response

We are following recommendation as specified.

Finding # 7 - Void slips were occasionally not included in deposit files to document voided transactions

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state, "The cashier initiating the voided transaction will document...the cause of the voided transaction and its resolution...A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void. All voided receipts will be attached to the daily cash balance sheet for audit purposes."

A void slip occasionally did not accompany transactions noted as voided in Sportsman.

Acord Ice Center management explained that temporary employees who have not been properly trained or who may be forgetful of standard operating procedures occasionally did not document voided transactions as required.

Voided transactions not explained and authorized by a supervisor could easily represent concealment of theft.

Recommendation

We recommend that a void slip be included in deposit documentation for all voided transactions, and that these slips include an explanation, together with the cashier and supervisor's signatures.

Management Response

No management response.

Additional Information

Background

The Acord Ice Center in West Valley City, opened in June 1997, provides public skating, and drop-in programs for figure skating and hockey. The center also runs youth and adult hockey leagues, and introduction classes for both skating and hockey. Aside from these activities, there is private ice rental for hockey teams, including high school hockey teams. During the 2002 Salt Lake City Winter Olympic Games it served as a practice venue, primarily for men's hockey. Acord has four County merit employees, and uses Sportsman software for its cashiering system.

Scope

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

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

Our examination period covered up to twelve months ending October 31, 2012. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.