

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



An Audit of the Key Controls of
Northwest Recreation Center and Pool

April 16, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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April 16, 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 Northwest Recreation Center and Pool

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Northwest Recreation Center and Pool 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 Northwest Recreation Center and Pool and the cooperation from Kay Cameron, Facility Manager, Wendy Rendon, Bookkeeper, Kathy LeClaire, Child Care Director, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Northwest Recreation Center and Pool 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 Brenda Nelson MBA, CISA
Sr. Deputy Auditor

cc: Michele Nekota, Division Director
Paul Ross, Associate Division Director
Nancy Albiston, Fiscal Coordinator
Kay Cameron, Facility Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Northwest Recreation Center and Pool. 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

Northwest Recreation Center and Pool (NW) has put into place key controls for managing public funds, including controls over capital and controlled assets, purchasing cards, petty cash, and payroll. Among the deposits reviewed we noted minimal overages and shortages, review by a second, merit employee, and timely depositing. Most risks identified were minor and were not expected to result in material loss. Findings regarding accounts receivable, data backups, and the ability to re-print transactions were more significant.

Findings, Recommendations, and Management Responses

Finding # 1 - Daycare accounts receivable was not fully reconciled each month by an independent party.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Debt Collection," Section 5.3.2 states,

"The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step."

Section 5.4 states:

"The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payments. In the event that staffing levels prevent such a segregation of duties, a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

Daycare charges and payments were tracked using several methods resulting in a total accounting system with many separate parts that did not automatically reconcile. Daycare accounts receivable were not fully reconciled between these methods each month by a separate party.

Reconciliations are made more difficult by the use of separate accounting software.

In the absence of a full reconciliation, errors and omissions are more likely to occur. In addition, there is a risk that funds may be misappropriated.

Recommendation

We recommend that accounts receivable be fully reconciled each month from beginning to ending accounts receivable balance, by an employee that is not involved in billing or collection. If segregation of duties is not possible, we recommend that the reconciliation be reviewed and signed by a supervisor.

We recommend that Parks and Recreation continue to seek software solutions that would integrate accounts receivable billing with point-of-sale (POS) software.

We recommend that payments entered into the Maggey system and on manual account cards be reconciled to amounts entered into Sportsman to ensure all payments are deposited.

Management Response

Accounts receivable will be reviewed by supervisor monthly and a new tracking sheet has been created to monitor accounts receivable at the beginning and end of each month. Payments entered into Maggey system on manual account cards will be reconciled from now on with amounts entered into sportsman.

Finding # 2 - Receipts could be re-printed for prior transactions.

Risk Level: High

Standard business practice is that cashiers should not be able to reprint receipts from prior transactions.

During the course of our review we found that receipts for prior transactions could be re-printed. The reprinted receipt was identical to the original receipt.

When receipts are not sequential and/or can be reprinted, the accuracy and completeness of transactions cannot be ensured. The risk of errors and misappropriation of funds is increased.

Recommendation

We recommend that the ability for cashiers to reprint a receipt for an existing transaction be disabled.

Management Response

This recommendation is not possible with our current point of sale system. (Sportsman sequel) Reprinted receipts must be approved by a supervisor.

Finding # 3 - Controls over checks received in the mail were not adequate.

Risk Level: Moderate

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."

Section 3.1.6 states:

"The duties of opening the mail and summarizing the daily receipt of checks should be separated from the duty of posting payments in the cash receipts journal unless Agency Management determines that doing so is operationally burdensome. If operationally burdensome, Agencies shall adopt compensating internal controls to insure that the posting of payments to accounts is consistently overseen and reviewed by Agency Management or Fiscal Managers."

Northwest Recreation occasionally received checks in the mail. Depending on what the payment was for, the checks were received by the Bookkeeper or the Child Care Director, were opened alone, and were then taken to a cashier for entry into the accounting system. Both the Bookkeeper and the Child Care Director also have responsibilities involving billing and tracking payments, which created a poor separation of duties.

When separation of duties and documentation of amounts received is not adequate, the risk of theft and undetected errors is increased.

Recommendation

We recommend that the duties of invoicing, receipting of mail, and posting of payments be assigned to separate individuals.

We recommend that checks received in the mail be opened, documented, and signed off on in the presence of two employees.

Management Response

Two merit employees will open mail. A log has been created to log all checks received with date, amount of check, and initials of persons opening mail. Check will then be given to cashier to enter into sportsman.

Finding # 4 - There was no electronic backup of daycare activity and hardcopy backups were not rotated offsite.

Risk Level: Moderate

Standard business practice requires that data supporting financial transactions and amounts due the County be backed up and that the backup be kept in a secure, offsite location.

Each day parents logged their children in and out of the daycare using software called Maggey. Data was stored on a local computer, along with manual account ledgers, and was the back up detail used for billing. No electronic backup was created. Each day a report is generated from Maggey documenting the day's activity. Staff could rely on the paper reports in the event of a data loss. No copy of the reports was kept at an offsite location.

When information is not backed up and stored at an offsite location, data might be lost and amounts due the County may go uncollected.

Recommendation

We recommend that an electronic backup of daycare activity per Maggey software be completed each day and stored at a secure offsite location, or that the hardcopy backup of daycare activity be completed each day and stored at a secure offsite location.

Management Response

Flash drive is being used to backup Maggey child care system information weekly. The Child Care Director or assistant director at the community center will complete the backup each Friday, and flash drive will be dropped in the safe at the Northwest Recreation Center.

Finding # 5 - Documentation and supervisory review of discounts, free day passes, no-sales and adjustments was not adequate.

Risk Level: Moderate

Standard business practice requires supervisory review and monitoring of discounts, passes, and other high-risk transactions.

During our review of deposit documentation we noted passes attached to the deposit; however, the number of passes did not always correspond to the recorded number of passes accepted. We also noted account credits and administrative credits with no attached documentation or evidence of supervisory review.

Similarly, there was no review of no-sale transactions.

Finally, each month a separate till was opened that was used by the bookkeeper and other merit staff to make account adjustments throughout the month. At the end of the month the till was closed and a report was forwarded to Parks and Recreation administration. There was no supervisory review of adjustments conducted by management at Northwest.

When the number of day passes included with the cashier's deposit documentation does not correspond to the number entered into the accounting records, the risk of misappropriation of funds is increased. Failure to monitor and review other discounts, no-sales, adjustments, and credits creates a similar risk. An unusually high number of any of these transactions can be a sign of misappropriation of funds.

Recommendation

We recommend that cashiers include all passes redeemed with their daily deposit documentation and that the bookkeeper follow up when exceptions are noted between passes on-hand and those entered into Sportsman.

We recommend that the bookkeeper review other credits and discounts, document the reason for the discount or credit, and follow up with cashiers where necessary.

We recommend that the bookkeeper monitor no-sale transactions by cashier and follow up with cashiers that have a higher than expected number.

We recommend that all adjustments included on the monthly adjustment report entered by the bookkeeper and other merit staff be reviewed and signed off on by a supervisor at Northwest.

Management Response

Most of the passes were accounted for, but on occasion, the day pass collected were separated somehow from the transmittals. ACTION TAKEN: when bookkeeper balances till, the pass type or discount is noted on cash till balance report and on the deposit batch report. and pass is stapled to daily transmittal. Bookkeeper will review detail reports daily to look for no-sale transactions and follow up with staff as needed. Supervisor is now reviewing and signing admin till report at the end of each month

Finding # 6 - Over/short logs were not always on file for each cashier and were not always signed.

Risk Level: Low

Countywide Policy #1062, Section 3.8.2, states:

"Change funds should be counted, restored to the established imprest balance, and any daily shortages or overages recognized and recorded on MPF Form 3A, Cash Balance Sheet, and on MPF Form 11, Cash Over/Short Log."

We reviewed over/short logs on file for January to December 2012 and found over/short logs on file for each month. We noted that the number and magnitude of overages and shortages was low. However, the number of logs kept did not always correspond to the number of cashiers that worked during that month. Some of the over/short logs were later found misfiled in another month. That may be the case with the rest as well. The bookkeeper confirmed that at least one cashier does not complete an over/short log. We also noted that not all over/short logs contained both the cashier and supervisor's signature.

The bookkeeper explained that, despite her best efforts, it was difficult to ensure each cashier completed and signed an over/short log due to the number of cashiers, turnover, and the variety of schedules worked. A modified log that includes all cashiers and is maintained by the bookkeeper, but signed off on by the cashiers, such as that included as Appendix A, might provide a more efficient and manageable approach.

When overages and shortages are not tracked by cashier and reviewed by a supervisor, trends may not be noted and needed training and/or remediation may not occur.

Recommendation

We recommend that overages and shortages be tracked by cashier using a monthly over/short log.

We recommend that the cashier sign the log each month.

We recommend that the supervisor review and sign the over/short logs each month.

Management Response

Bookkeeper is maintaining one over short log for the month for all of the cashiers. This form was approved by the auditors. At the end of the month this form is reviewed with and signed by each cashier.

Finding # 7 - The change fund was not accounted for daily.

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."

Section 3.8.2 states:

"Change funds should be counted, restored to the established imprest balance, and any daily shortages or overages recognized and recorded ..."

A portion of the change fund (\$125) was kept in the upper portion of the safe. The bookkeeper stated that she counted this portion of the fund at least once per week, but no documentation is created.

The remaining \$150 portion of the change fund was divided into three starting change funds. Cashiers retrieved a starting change fund from the safe at the start of their shift or from another cashier whose shift was ending. No documentation was created in either circumstance.

Finally, the cashier balance sheet did not include a place for the cashier to account for the change fund.

When the entire change fund is not accounted for daily, overages or shortages are less likely to be detected in a timely manner. Failure to document transfers of the change fund from the safe or between employees means that individual accountability is not fully established and shortages are more likely to occur.

Recommendation

We recommend that the entire change fund be accounted for and documented on a daily basis.

We recommend that a transfer form or log be used whenever change funds are transferred between employees or removed from the safe.

We recommend that the daily cash balance form include a place for the employee to account for their change fund.

Management Response

New log was created so the bookkeeper can verify that the change fund is correct. She counts and signs the log on a daily basis. In addition a new form is used to verify that the change fund is correct when employees remove change from the safe and also when they transfer funds to another employee or drop in the safe at the end of their shift. Daily cash balance sheet now includes a line to subtract cashiers beginning change fund.

Finding # 8 - Voids were not always handled in accordance with Countywide policy.

Risk Level: Low

Countywide Policy 1062, "Management of Public Funds," Section 3.7 states:

"Voided Receipts 3.7.1 Cashiers making errors on manually prepared or electronically generated receipts shall not make corrections such as strikeouts, erasures, or alterations of any kind. The erroneous receipt shall be voided by writing 'VOID' across the front of the receipt, and a new receipt reflecting the correct information will be issued. 3.7.2 All copies will be marked 'VOID,' including the customer copy, if available. The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution. 3.7.3 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."

Voids were not always handled in accordance with Countywide policy. Within the judgmental sample of deposits reviewed there were 18 voided transactions. We noted two voided transactions were not accompanied by a void form and four void forms had not been signed by a supervisor. We also found that the original receipt was not always retained. When the original receipt was retained, it had not been marked void. Finally, some receipts created when a transaction was voided (void receipts) were not attached.

When voids are not handled in accordance with policy there is a greater risk of misappropriation of funds.

Recommendation

We recommend that both the voided receipt and original customer receipt (if available) be retained and that the customer copy be marked "VOID".

We recommend that a void slip be completed for all voided transactions and that a supervisor review and sign all forms.

Management Response

Cashiers have received additional training on void procedures. Bookkeeper has reviewed the process and will make sure voided transactions are signed by a supervisor. Customer copy receipts will be marked "void".

Finding # 9 - The Controlled Assets Inventory Form–Employee was not used for assets that were individually assigned.

Risk Level: Low

Countywide Policy #1125, Safeguarding Property/Assets, Section 4.3 states:

“The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures...‘Controlled Assets Inventory Form–Employee’ is used for those assets that due to their nature, are used by and therefore readily assignable to an individual.”

The Controlled Assets Inventory Form–Employee was not used for assets that were individually assigned, such as computers and other items in merit staff offices.

Failure to track which employee is responsible for assets that are individually assigned increases the risk of asset misappropriation and loss.

Recommendation

We recommend the property manager implement use of the “Controlled Asset Inventory Form–Employee,” which can be found attached to Countywide Policy #1125.

Management Response

Individually assigned controlled asset equipment for each merit employee was noted on a separate page, but it was not the form from policy # 1125, and some of the merit employees did not sign the page for their individual controlled assets. A separate form will be completed for each merit employees controlled assets, and they will sign and submit.

Finding # 10 - A daily cash balance sheet was not always completed for each cashier.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1, states:

"All County Agencies should balance collections to cash register (or receipt log) totals and prepare a deposit, using MPF Form 3A, Cash Balance Sheet, or a similar form developed for and produced by the specific Agency"

We found six deposits where funds collected by at least one cashier were not documented on a daily cash balance sheet. According to the bookkeeper, the instances probably occurred when funds were receipted without a change fund, such as an employee helping out during a busy time. In most cases the Sportsman till report was printed out as documentation and had been signed by the cashier and/or another employee.

When a balance form is not filled out, there is no documentation of the amount of money actually transferred for deposit. Deposit errors are more likely to occur.

Recommendation

We recommend that a daily cash balance sheet or funds transfer form be filled out whenever funds are receipted.

Management Response

On one occasion, one employee did not fill out cash balance sheet. Each cashier has been instructed that if a till is open, a cash balance sheet must be completed, even if no transaction takes place during the shift.

Finding # 11 - The bookkeeper occasionally worked as a cashier and/or opened a till for a cashier.

Risk Level: Low

Countywide Policy #1062, Management of Public Funds, introduction states:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping."

We examined a judgmental sample of 18 deposits and found five days on which the bookkeeper, or backup bookkeeper, acted as a cashier as well as prepared that day's deposit. In addition, we found 8 days on which the employee ID used to open and close a cashier's till did not match the employee that completed the balance sheet. In most cases, the employee ID used was that of the bookkeeper.

The bookkeeper stated that she sometimes helps at the front desk when it is busy or when the front desk staff has left for a few minutes. She cited a compensating control was in place in that a second person signs off on her Daily Cash Balance form. In cases where her user ID appeared on the till used by a cashier, she explained that she sometimes opens the till before a cashier arrives in order to save set up time in between cashier shifts.

When separation of duties is not adequate, the risk of theft and undetected errors is increased. When the user ID associated with a till does not match the cashier on duty, cashier accountability is diminished.

Recommendation

We recommend that, whenever possible, another member of the merit staff or other employee, not the bookkeeper, work as a cashier when it is busy or when the front desk staff steps away.

We recommend that cashiers always operate under their own user ID.

Management Response

Bookkeeper no longer opens tills or does any transactions in the tills of other employees. If a cashier needs a break an employee other than the bookkeeper will cover for that employee. Cashiers have been instructed to exit sportsman after their shift so the next employee on the schedule so that they can operate under their own ID.

Additional Information

Background

The Northwest Recreation Center opened in June 2010 and features swimming pools, a fitness area, a full size gym and indoor running track. A second building, the Northwest Community Center, houses a State Licensed Child Care center and other services. Classes such as dancing, karate, music and art are also available at the Community Center.

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 December 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.