

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



An Audit of the Key Controls of  
Redwood Recreation Center and Outdoor Pool

December 31, 2013

**GREGORY P. HAWKINS**

SALT LAKE COUNTY AUDITOR

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December 31, 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 Redwood Recreation Center and Outdoor Pool

GREGORY P. HAWKINS  
Salt Lake County Auditor

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Dear Mayor McAdams:

We recently completed an analysis of the financial records of Redwood Recreation Center and Outdoor 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 Redwood Recreation Center and Outdoor Pool and the cooperation from Jennifer Leitner, Kristine Jensen, Ruth McGovern, Sandy Garcia, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Redwood Recreation Center and Outdoor 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 Todd Livingston  
Deputy Auditor

cc: Michele Nekota, Division Director  
Paul Ross, Associate Division Director  
Jennifer Leitner, Facility Manager





## Objectives

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

The Redwood Recreation Center and Outdoor Pool has put into place several key controls for managing public funds. Most risks identified were minor and are not expected to result in material loss. Deficiencies in certain internal controls over cash depositing, merchandise inventory, petty cash, and receipting have a higher likelihood of leading to a loss of County property.

## Findings and Recommendations

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### *Finding # 1 - Deposits were not always made in a timely manner.*

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#### **Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by § 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable, but no later than three days after receipt."

We found that 24 of the 30 deposits reviewed were deposited more than three days after receipt of collections.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that would otherwise be accrued.

#### **Recommendation**

We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

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### *Finding # 2 - The "Controlled Assets Inventory Form - Organization" was not signed or dated.*

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#### **Risk Level: Low**

Countywide Policy #1125, "Safeguarding Property/Assets," Section 4.3.3 states:

"The 'Certification' on Exhibit ... 4 [Controlled Assets Inventory Form-Organization] ... states that the ... Property Manager (for assets not assigned to individual employees) [is] accountable for all property assigned to them."

The "Controlled Assets Inventory Form-Organization" was not signed by the Property Manager as evidence of accountability for assets not assigned to individual employees.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that Property Managers sign and date the "Controlled Assets Inventory Form-Organization" to certify the assets not assigned to individuals.

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***Finding # 3 - An SAQ representing Parks and Recreation's compliance with PCI-DSS had not been completed and was not on file.***

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**Risk Level: Low**

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy," Section 3.0 states:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

An SAQ representing Parks and Recreation's compliance with PCI-DSS had not been completed and was not on file.

Not completing this self-evaluating questionnaire for PCI-DSS increases the risk of fines and the inability to accept credit cards as payment.

***Recommendation***

We recommend that Parks and Recreation management complete and sign an annual SAQ and that the Redwood Recreation Center and Outdoor Pool keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

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***Finding # 4 - Cash over/short logs were not signed by a supervisor.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 5.3.1.3 states:

"The MPF Form 11 [Cash Over/Short Log], for each Cashier, shall be signed by the Cashier's immediate supervisor."

None of the over/short logs on file at the Redwood Recreation Center and Outdoor Pool were signed by the cashier's immediate supervisor.

When over/short logs are not signed by a supervisor as evidence of review, overages and shortages may go unnoticed and needed remediation may not occur.

***Recommendation***

We recommend that an over/short log be maintained for each cashier and that their supervisor review and sign the log each month.

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***Finding # 5 - Controls over checks received through the mail were not adequate.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Sections 3.1.5 and 3.1.6 state:

"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."

"The duties of opening the mail and summarizing the daily receipts 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 Manager."

We observed that only one employee was designated to open the mail, checks received by mail were not recorded in a log, and the same employee who received payments through the mail occasionally processed the transactions.

When checks received by mail are not properly safeguarded and documented, they are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that the duties of posting and receiving payments be separated, and the mail be opened and documented in the presence of two persons, or that compensating controls be adopted.

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***Finding # 6 - The "Controlled Assets Inventory Form - Employee" was not used.***

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**Risk Level: Low**

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 4.3 and 4.3.1 state:

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) ... [the] '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 to manage controlled assets that were assigned to employees.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that the Redwood Recreation Center and Outdoor Pool use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.

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***Finding # 7 - No comprehensive software inventory was on file.***

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**Risk Level: Low**

Countywide Policy #1400-3, "Information Technology Security: Software Licensing Policy," Section 3.5 states:

"County agency management shall maintain a current software inventory which includes at least the following: number of authorized and actual installations, license agreement, and proof of purchase. County agency management shall conduct an annual review of their software inventory. Software inventories shall be updated whenever new software is acquired and/or installed or software is uninstalled, or the IT resource and/or system is transferred, decommissioned or sent to surplus."

The Redwood Recreation Center and Outdoor Pool did not maintain a current software inventory.

Failure to maintain a software inventory increases the risk of unlicensed software on Parks and Recreation computers, which could result in fines and penalties. In addition, available software licenses may not be fully utilized.

***Recommendation***

We recommend that the Redwood Recreation Center and Outdoor Pool maintain a current software inventory.

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***Finding # 8 - Accounts receivable administration functions were not adequately segregated.***

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**Risk Level: Low**

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," 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."

The same employee who prepared invoices also maintained the account receivable ledger and occasionally collected the payments.

When financial duties are not adequately segregated, funds are at a greater risk of theft and misuse, and employees are left unprotected against any allegations regarding missing funds.

***Recommendation***

We recommend that the duties of billing and maintaining accounts be segregated from receipting and posting of customer payments.

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***Finding # 9 - The purchasing cards were not immediately signed by the Cardholders.***

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**Risk Level: Low**

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 2.1 states:

"Immediately, upon receipt of the P-Card, it shall be signed by the Cardholder."

Of the two purchasing cards reviewed at the Redwood Recreation Center and Outdoor Pool, neither card was not signed on the back by the cardholder.

When a purchasing card is not signed, the cardholder cannot be easily verified by a vendor when making transactions.

***Recommendation***

We recommend that the cardholders sign the back of their purchasing card.

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***Finding # 10 - "No sale" or "no money taken" transactions were not always being documented or reviewed by an agent cashier (supervisor).***

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**Risk Level: Low**

"Salt Lake County Parks & Recreation Division, "Policies & Procedure for Cash Handling," Section 1.1 states that:

"Agent Cashiers for the Parks & Recreation Division are defined as Program Managers, Assistant Section Supervisors, Director of Recreation..."

Additionally, Section 4.17 states:

"The agent cashier shall independently review all transactions for the day and report all inconsistencies, errors, or questionable transactions to the facilities program manager."

The Redwood Recreation Center and Outdoor Pool did not document or have supervisory review of "no-sale" or "no money taken" transactions.

When cashiers can open their cash drawers without documenting the reason and without review by a supervisor, funds are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that cashiers document each "no-sale" or "no money taken" transaction and have a supervisor review that transaction.

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***Finding # 11 - Merchandise inventory was not tracked properly.***

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**Risk Level: Low**

United States General Accounting Office, Executive Guide, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 5, states:

"Managing the acquisition, production, storage, and distribution of inventory is critical to controlling cost, operational efficiency, and mission readiness. Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity's financial management records and reports. ... The ability to accurately count physical inventories is critical in verifying that inventory actually exists and that on-hand balances agree with financial and logistical records."

At the Redwood Recreation Center, recorded invoice amounts for merchandise were inconsistent with merchandise invoices. Additionally, there was no record of inventory tracking and reconciling at the Redwood Outdoor Pool.

When inventory is not tracked and reconciled, revenue and inventory on hand is at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that the Redwood Recreation Center and Outdoor Pool track and reconcile their merchandise on hand.

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***Finding # 12 - The change fund balance did not match the amount of record in Mayor's Financial Administration.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 2.7.2 states:

"Change Funds shall be maintained at the amount authorized by the Auditor's Office [Mayor's Financial Administration] ... ."

The change fund amount on record for the Redwood Recreation Center and Pool per Mayor's Financial Administration was \$150. The actual amount located at the Redwood Recreation Center and Pool was \$200.

When the change fund does not balance to the amount on record, it could indicate a lapse of management control of the fund. Additionally, excess funds are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that the change fund be maintained at its authorized amount and that excess funds be returned to Mayor's Financial Administration.

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***Finding # 13 - Voids were not handled in accordance with Countywide policy.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state:

"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. ... 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."

During a 30-day period of deposit review, we noted 11 voids per the Sportsman POS reports. We found that none of the voided receipts were attached to the daily cash balance sheet and no supporting documentation was attached to the deposit.

When voided transactions are not processed according to Countywide policy, funds are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that voids be conducted according to Countywide policy by writing VOID on the front of voided receipts, having cashiers document and sign the voided receipts, having supervisors sign voided receipts as evidence of review, and attaching the voided receipts to the daily cash balance sheet.

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***Finding # 14 - A fund transfer log was not used when funds were returned to the safe.***

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**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 fund transfer log was used to document the retrieval of funds from the safe, but was not used to document their return.

When movement of the change fund is not documented, accountability for funds is not established, leaving them at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that an MPF Form 7, "Fund Transfer Ledger," or similar log, be used to document the movement of the change fund to and from the safe.

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***Finding # 15 - Inventory functions were not adequately segregated.***

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**Risk Level: Low**

Joseph T. Wells, the founder and chairman of the Association of Certified Fraud Examiners (ACFE), in "Corporate Fraud Handbook - Prevention and Detection" writes:

"The purchasing and receiving functions of a company can be manipulated by dishonest employees to facilitate the theft of inventory and other assets. One of the basic measures, if properly installed and implemented, that may help prevent inventory fraud is segregation of duties. Different personnel should handle these duties: (1) Requisition of inventory, (2) Receipt of inventory, (3) Disbursement of inventory."

The same employee that makes the purchases also receives the purchases, inventories the merchandise, and records all merchandise information.

When an employee both purchases and receives inventory, there is an increased risk of merchandise inventory being lost or misappropriated without detection.

### ***Recommendation***

We recommend that the Redwood Recreation Center and Outdoor Pool implement segregation of duties for the responsibilities of ordering and receiving merchandise purchased for resale.

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### ***Finding # 16 - Deposits did not always balance.***

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### **Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.2 states:

"A 'master' balance sheet may be prepared to accumulate totals of individual cash balance sheets from each cash register. With any balancing procedure, the cash count total, including the breakdown by cash and check composition, should match the deposit slip total."

Ten of the 30 bank deposits reviewed did not balance with the daily collections reported on the cash balance sheets.

When daily collection records and cash balance sheets do not reconcile with deposit documentation, cashier theft and/or errors cannot easily be discovered.

### ***Recommendation***

We recommend that the cash balance sheets recording the daily collections balance with the daily bank deposit.

## **Additional Information**

### **Background**

The Redwood Recreation Center and Outdoor Pool is located at 3100 South Redwood Road in West Valley City. It includes a large gymnasium, fitness room with cardio, circuit and weight lifting equipment, party rooms, and an outdoor pool. The facility is also home to many recreation programs that serve the residents of Salt Lake County.

### **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, 2013. 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.

Management response to findings in this report, when received, will be attached as Appendix A.



## Parks & Recreation Division Response to Summary of Findings & Recommendation

### Redwood Recreation Center - Audit Dated: November – December 2013

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
1.	Deposits were not always made in a timely manner.	Deposit funds daily whenever practicable, but no later than three days after receipt.	Our temporary employee who is our bookkeeper is now working M/W/F mornings and deposits are made at noon every M/W/F. We do our best to meet this standard – we do not have an office manager. Kris Jensen is completing this task – effective 1.27.14
2.	Controlled Assets Inventory Form was not signed or dated.	Property Manager signs and dates the Controlled Assets Inventory.	The original is signed and given to Thora Bell in Admin every year in March. This original will be copied at the center level and kept in a folder. Jen Leitner has completed this task 12.5.13
3.	A SAQ representing Parks and Recreation’s compliance with PCI had not been completed and was not on file.	PKRC management complete and sign an annual SAQ and that Redwood center and a copy on file to show they are aware of and compliant with PCI requirements.	Recommendation forwarded to PKRC division administration. Admin is helping complete this task.
4.	Cash over/short logs are not signed by a supervisor.	Supervisor sign all MPF Forms 11 “cash over/short logs” as evidence of review.	The supervisor had not signed <u>all</u> of the logs reviewed. However, the cashier and the supervisor do review and sign every till report which also shows the over/short amounts. Action: The supervisor will sign all over/short logs for the previous month at the start of the next month. Kris Jensen or Jen Leitner are signing these logs – effective 1.2.14
5.	Controls over checks received through the mail were not adequate.	Posting and receiving payments be separated and the mail be opened and documented in the presence of two persons, or that compensating controls be adopted.	Changed and implemented 11.21.13 – please see attachment.

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
6.	The Controlled Assets Inventory Form was not used.	Use the Controlled Asset Form-Employee to managed controlled assets readily assignable to an individual.	Redwood will split the controlled asset form into 4 forms (one for each merit employee's assets) instead of one combined form. Jen Leitner will complete this form on 2.4.14.
7.	No comprehensive software inventory list was on file.	We recommend that the Redwood Recreation Center maintain a current software inventory.	No software that has been purchased by Redwood Recreation Center. The only software we have was loaded on to all our computers by IS prior to us receiving them. If we purchase any software it will be documented. Jen Leitner will be in charge if we purchase any software – effective 12.1.13
8.	Accounts receivable admin functions were not adequately segregated.	Duties of billing and maintaining accounts be segregated from receipting and posting of customer payments.	Bookkeeper reserves rentals for patrons and places a balance on their account. If not paid one week prior, the rental is cancelled. Payments are taken by the front desk attendant – not the bookkeeper. Balance on accounts are for rentals only and full payment is made or reservation is cancelled prior to event. Kris Jensen and front desk staff have teamed up so the same person is not posting and receiving the payments – effective 12.4.13.
9.	The purchasing cards were not immediately signed by the cardholders.	We recommend that the cardholders sign the purchasing card.	Done – please see attachment. Jen Leitner and Sandy Garcia completed this task – 12.2.13.
10.	No sale or no money taken were not always being documented or reviewed by an agent cashier.	Cashiers document no sale or no money taken transaction and have a supervisor review that transaction.	Suggestion going to be implemented. Kris Jensen has completed this task – 12.14.13.
11.	Merchandise inventory was not tracked properly.	Track and reconcile their merchandise on hand.	Proper accounting of merchandise will be implemented. Ruth McGovern and Kris Jensen have completed this task – effective 1.8.14.
12.	The change fund balance did not match the amount of record in the Mayor's Financial Administration.	Change fund by maintained at its authorized amount.	\$50 of concession revenue was kept as a change fund (already had the pool change fund) and not deposited into sportsman. Revenue will be deposited into sportsman – to total \$150. Jen Leitner will complete this task on 2.3.14.

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
13.	Voids were not handled in accordance with Countywide policy.	Voids be conducted by writing void on the front of the voided receipts, having cashiers and document and sign, supervisors sign and attach void receipts to balance sheets.	Redwood will follow the recommendations - all cashiers will fill out a void slip that the receipts can be attached to. The void slip will have a name and signature line for a supervisor to document that the void has been reviewed. Kris has completed this task – effective 1.8.14.
14.	A fund transfer log was not used when funds were returned to the safe.	We recommend that J.L. Sorenson Recreation Center use an MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.	Funds being moved into & out of the safe will be documented on the Safe Fund transfer Log. Kris Jensen and Jen Leitner will complete this task on 2.4.14.
15.	Inventory functions were not adequately segregated.	Implement segregation of duties for the responsibilities of ordering and receiving merchandise purchased for resale.	Mindy left for Magna and there was confusion on the concession accountability. Duties are already dispersed according to programs assigned. Jen Leitner completed this task effective 1.3.14.
16.	Deposits did not always balance.	Cash balance sheets recording the daily collections balance with the daily bank deposit.	Recommendation will be used. Issues with credit card machine during the summer at the outdoor pool and not balancing until the next day. Kris Jensen effectively completed this task on 12.15.13.

**NAME AND TITLE OF PERSON RESPONDING: Jen Leitner, Facility Manager, Redwood Recreation Center**

**DATE PREPARED: 1/17/14**