

**Office of the
Salt Lake County Auditor
Scott Tingley, CIA, CGAP**

**A Report to
Salt Lake County Mayor
Ben McAdams**

Report No. 2015-01

**An Investigation of Employee Theft at
Holladay Lions Fitness and Recreation Center**

We recently conducted an investigation of a report of employee theft at the Holladay Lions Fitness and Recreation Center (Holladay Lions). On February 11, 2015, the Associate Director of the Salt Lake County Parks and Recreation Division (Parks and Recreation) notified our office that an employee theft had occurred. As a result, we conducted an investigation to look into the allegation and provide additional information to Parks and Recreation management.

Initial details of the theft indicated that a temporary County employee, working as a cashier at Holladay Lions, admitted to stealing \$40.00 from his cash drawer on January 26, 2015. The theft was revealed when a patron tried to scan his newly-purchased key fob membership pass, and discovered that it had never been activated. The patron explained to Holladay Lions management that he had paid for the membership pass with cash, yet did not receive a receipt at the time of the sale.

After reviewing transaction records and surveillance video footage, Holladay Lions management determined that the cashier never completed the transaction in the point-of-sale system, and the cash payment could not be accounted for. The cashier admitted to the theft after he was confronted by management. On February 10, 2015, the cashier was terminated from County employment.



Scope and Objectives

In our meeting with the Associate Director of Parks and Recreation, we discussed some of the facts Holladay Lions management obtained prior to starting our investigation. Based on our discussion and those facts, our objectives for the investigation were as follows:

- Ensure all cash funds at Holladay Lions could be accounted for and were secure.
- Determine how the alleged theft occurred, and substantiate any additional indications of theft or wrongdoing.
- Provide recommendations for improving cash handling procedures and internal controls that could help prevent future incidents of theft.

To accomplish these objectives, we conducted a surprise cash count of all cash funds including the change fund, the petty cash fund, and daily collections. We reviewed a sample of cash drawer balancing and deposit records on days the cashier had worked. We reviewed cashier over/short logs over a six month period from August 2014 to January 2015. We performed a statistical analysis of cashier transaction data over a fourteen-month period, identifying significant patterns of suspicious activity. In addition, we interviewed the Facility Manager and Office Coordinator who discovered the theft.

Better Management Oversight Could Have Prevented the Theft

Although it is impossible to completely remove the risk of theft whenever cashiers process cash transactions, we found several instances where a lack of management oversight and accountability at Holladay Lions may have contributed to providing the opportunity for the cashier to steal the funds he admitted to taking.

Management Failed to Investigate a Significant Pattern of Cash Overages and Shortages

As part of our investigation, we reviewed cash over/short forms from August 1, 2014, through February 11, 2015, to see if there were any notable patterns. Out of 14 different cashiers that worked at Holladay Lions during that time, the cashier that admitted to stealing the cash had 54% of the recorded cash overages or shortages. The cashier had

documented 91 cash overages or shortages in his daily cash drawer balances out of the 169 cash over/short forms we examined. We also noted that none of the over/short forms were signed by any of the cashiers or their supervisor.

Countywide Policy #1062, "Management of Public Funds," requires cashiers to document any cash overages or shortages in their daily balances on an MPF Form 11, *Cash Over/Short Log*. The policy also requires that the cashier's immediate supervisor review each *Cash Over/Short Log* and sign it. By signing the form, the supervisor is documenting that the matter was reviewed, and the appropriate steps were taken to resolve the issue.

When a cashier has a significant pattern of cash overages or shortages, as we discovered during our investigation, it could be an indication that the cashier is manipulating daily cash balances to conceal theft. Furthermore, when a cashier knows that daily overages or shortages are not reviewed or scrutinized by management, the opportunity for theft increases because there is a lack of management oversight and accountability.

The Cashier Manipulated Sales Transactions

Using data analytics software, we extracted transaction data from the Holladay Lions point-of-sale system. We identified and reviewed all point-of-sale transactions from January 1, 2014, through February 11, 2015, that the cashier had entered. On many occasions, the cashier had long periods of time where he did not process any cash transactions, but did record sales where patrons paid with credit cards or checks.

We reviewed surveillance video footage from several days, including January 26, 2015, the day the theft occurred. Video footage clearly shows the cashier accepting cash payments from Holladay Lions patrons on the days we reviewed.

On the January 20, 2015, video footage, we identified at least five occasions where the cashier helped customers who paid with cash. However, the daily transaction data from the point-of-sale system shows that the cashier recorded these sales as non-chargeable or fully discounted transactions that did not require any form of payment from the customer.

The cashier used the *Super Seniors* and *Silver Sneakers* transaction types to record non-chargeable, fully discounted sales, so that he could

When significant variances in balancing trends are not investigated, misappropriation of funds may go undetected.

The cashier was able to conceal a misappropriation of funds by not properly recording some transactions.

open the cash drawer and create the appearance that he was recording a sale for the customer. *Super Senior* passes are for patrons who are over 80 years old. *Silver Sneakers* passes are intended for patrons who are insured through qualified Medicare programs.

We determined through statistical analysis of the transaction data that cash receipts made up an average of 45% of all payment types from a sample of eight cashiers at Holladay Lions during 2014. The highest percentage of cash receipts, compared to all other payment types for a single cashier, was 51%. The lowest percentage of cash receipts, compared to all other payment types, was 36%. The cashier that admitted to the theft had the lowest percentage of cash receipts, compared to all other payment types, at only 36%. During the month of January 2015, his percentage of cash payments compared to all other payment types dropped to 34%, which was far below the average of 45%.

The same analysis was used to compare cash sales to all other payment types by both transaction count and total dollar amount of collections. Again, the cashier had the lowest number of cash receipts, and the lowest total dollar amount of cash receipts of all the cashiers in our sample.

Based on our analysis of the sales transaction data and the surveillance video footage, we concluded that the cashier manipulated sales transactions to conceal theft of cash payments that he received from customers. The significant drop in his percentage of cash receipts during the month of January 2015 could be an indication that his fraudulent activity increased due to the personal financial pressures the cashier admitted to when he was confronted about stealing the \$40.

The Cashier did not Issue Receipts to Customers

In each instance on the January 20, 2015, video footage where the cashier received cash as payment, the cashier did not issue a receipt to the customer. Instead, it appears from the daily transaction data that he entered a *Super Seniors* or *Silver Sneakers* transaction type into the point-of-sale system, accepted the cash payment from the customer, and then failed to give the customer a copy of the receipt. In some cases, the cashier can be seen in the surveillance video discarding the printed receipt copy in the trash after the customer walked away.

Countywide Policy #1062, "Management of Public Funds," Section 3.1.2 states: "All persons remitting payments ... shall be issued a receipt documenting the payment." In addition, Parks and Recreation Policies and

Procedures for Cash Handling, Section 2.1.2 states: “All point-of-sale locations will give a receipt for every transaction to patrons, regardless of the amount due.”

Receipts not only provide a record of payment, but also inform the customer that the transaction was handled correctly. It is common for customers to forget to ask for a receipt from cashiers. Therefore, *Countywide Policy* clearly makes it the responsibility of County agencies to provide receipts to customers for every transaction. By not providing a receipt to every customer, the cashier at Holladay Lions was able to manipulate sales transactions and conceal the fact that he was misappropriating cash received from customers.

The Cashier Opened his Cash Drawer Manually Without Detection

Surveillance video footage also revealed that the cashier was able to open his cash drawer manually without any type of record in the point-of-sale system. We observed several instances where the cashier manually opened his cash drawer and either placed cash in or removed cash from his cash drawer.

By overriding the security features of the point-of-sale system and manually opening his cash drawer, the cashier was able to move cash that he had received from customers into or out of the drawer whenever he needed to, completely undetected. This allowed the cashier to misrepresent the actual amount of cash he had collected and to conceal his theft of County funds.

The Cashier Had Unrestricted Access to Cash in the Safe

While reviewing the surveillance video footage, we observed that the cashier opened the safe, removed cash from a change bag, and placed the money in another bag in a drawer next to his workstation. No other employee was present at the time, nor did we see the cashier record the amount of cash that he removed from the safe. In our opinion, there was no verification by a supervisor, or another employee, of the amount of money that the cashier removed from the safe and placed in the drawer by his workstation.

Countywide Policy #1062, “Management of Public Funds,” Sections 2.3.1 and 2.7.3 state: “The County Agency’s Fiscal Manager will ensure that individual accountability and effective security is established and

Funds in the safe were not properly safeguarded.

maintained for funds entrusted to each Cashier ... 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.”

According to another cashier, Holladay Lions has an internal policy stating that a second employee must be present and verify the amount when funds are removed from the safe, in addition to following **Countywide Policy** stated above. However, it was clear in the surveillance video that the cashier had unrestricted access to cash in the safe, and that he was able to remove an unknown amount of cash because a second employee was not there to verify the amount that was taken.

Due to a lack of management oversight at Holladay Lions, the cashier was able to circumvent established policies and procedures designed to ensure security and accountability for cash funds in the safe. This lack of oversight over access to cash funds in the safe provided an opportunity for the cashier to manipulate the amount of cash in his drawer and possibly cover up that he was in fact stealing cash payments from customers.

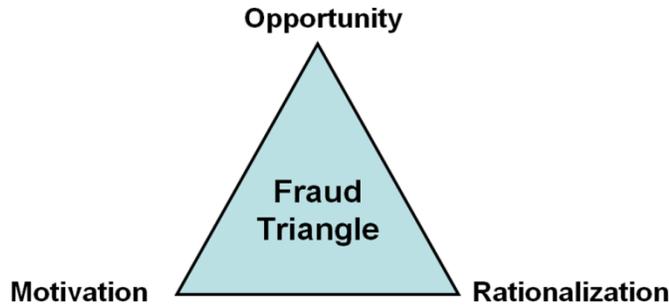
Management Did Not Report the Theft to Law Enforcement

After completion of its initial investigation, Parks and Recreation management notified the Auditor’s Office of the theft. However, the theft was not reported to local law enforcement. When this reporting does not occur, the agency exposes itself to liability for not reporting crimes to proper authorities.

Countywide Policy #1304, “Discovery and Reporting of Wrongdoing or Criminal Activity,” Section 2.2 states: “If their [management’s] investigation reveals criminal activity they shall report any suspected criminal activity to local law enforcement.”

When reviewing the risk of fraud, auditors often refer to the “fraud triangle,” first identified by criminologist Dr. Donald R. Cressey. The three key elements in the fraud triangle are opportunity, motivation, and rationalization.

The “fraud triangle” is a model for explaining the factors that lead to fraudulent behavior and cause someone to commit occupational fraud.



Opportunity: Circumstances that allow an employee to carry out the misappropriation of cash or other organizational assets.

Motivation: Pressure on an employee which leads to the need to misappropriate cash or other organizational assets.

Rationalization: A frame of mind or ethical character that allows an employee to intentionally misappropriate cash or other organizational assets and justify his/her dishonest actions.

Opportunity is the element over which management has the most control. Limiting opportunities for fraud is one way to reduce it. The lack of management oversight and accountability provided the **opportunity** for the cashier to steal County funds.

In conclusion, even though the cashier was well liked, and Holladay Lions management claims that this was a one-time occurrence, our findings indicate that it was not. Although we can only speculate at the total amount of cash funds that the cashier misappropriated over the course of his employment, better management oversight could have prevented the theft from occurring in the first place. We hope that by implementing the recommendations below, future occurrences of employee theft at Holladay Lions will be prevented.

Recommendations

1. We recommend that Holladay Lions management provide proper oversight of the cashiering function by (1) understanding the purpose of the over/short logs, (2) reviewing the logs for patterns of overages and shortages, and (3) investigating the reason for significant patterns of outages.
2. We recommend that Holladay Lions management implement internal controls to monitor and approve non-chargeable and fully

discounted transactions, like the *Super Seniors* and *Silver Sneakers* types.

3. We recommend that management perform periodic cash counts of cash drawers and change funds to ensure funds match amounts collected.
4. We recommend that Holladay Lions management ensure that cashiers issue receipts to patrons for every transaction, regardless of the amount due.
5. We recommend that a second employee be present while transferring funds to and from the safe, and that they log the transfer using an MPF Form 7, *Fund Transfer Ledger*, or similar log.
6. We recommend that Holladay Lions management ensure that all cashiers keep their collected funds in locked cash drawers or in the safe, at all times.
7. We recommend that Holladay Lions management implement controls that would prevent cashiers from opening cash drawers manually without reason or record.
8. We recommend that Holladay Lions management report any act of wrongdoing or theft to their local law enforcement agency as soon as practical, to limit the liability to the County.