A Report to the Citizens
of Salt Lake County and the
Board of County Commissioners

May 1999

A Performance Audit of the

Equestrian Park

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A PERFORMANCE AUDIT

of the

SALT LAKE COUNTY EQUESTRIAN PARK

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Executive Summary

Background

The Salt Lake County Equestrian Park in South Jordan is operated as an Enterprise fund by the County's Parks and Recreation Division. The facility serves as a pleasure-horse boarding and riding center for local equine enthusiasts, and a boarding and training hub for professional race horses. It is also the host location for various horse show, racing, and rodeo events.

Property and buildings that have been purchased during the 90's has significantly increased the Park's facilities. This increase is continuing as a new indoor arena is currently under construction, with completion scheduled for late summer, 1999. The Salt Lake County Fair will be one of the first events held at the newly expanded Equestrian Park. The fair is just one of many new events the County hopes to host at the Park after completion of the new arena.

In 1996-1997 a market and financial feasibility study on the proposed arena was conducted by the sports and entertainment consulting division of KPMG Peat Marwick. The resulting report estimated that an anticipated increase in events and the number of riding/rodeo clubs using the Park after expansion, would more than double the Park's annual operating revenue. If these projections are accurate, and operating expenses are held at budgeted 1998 levels, the Park could reduce its operating loss to approximately $60,000, down considerably from the over $200,000 operating losses in five of the last six years.

Findings and Recommendations

The Equestrian Park reserved stalls and tack rooms for a patron without charge. One patron that signed a six month lease agreement for 14 stalls and two tack rooms was billed for only two to five stalls and one to two tack rooms during the first three months of the lease period. However, all of the stalls and both tack rooms were still reserved for the patron. If the payment terms of the lease had been enforced a total of $3,120 should have been paid for the three months. Only $882.09 was paid, resulting in a loss of $2,237.91 in potential revenue for that time frame.

There is no formal rental agreement in place for a house located within the Equestrian Park. A Parks and Recreation employee and his wife live in the house and pay rent, but there are a number of issues

regarding this situation that should be resolved. For example: the rent charged is well below market; the employee's spouse is also employed by the County and is paid enough to offset the amount of rent paid; the spouse performs very limited job duties; and, there are income tax implications for the employee if less than market rate continues to be paid for the house.

The County may wish to have the employee live in the house, rent free, for the convenience of the County, but this should be formally recognized and agreed upon in appropriate documents.

The appropriate rent is not being charged for some Equestrian Park facilities. For example:

- A paddock for which a patron was paying rent of $150 for three horses actually had five horses in it. The rent for five horses should have been $250.
- Rent is not being charged for a tack room in each of two indoor barns.
- The Park is only charging $13.33 per stall in a section of stalls where rents should be $25 per stall.

There is a lack of separation of duties in, and supervisory review of, the cash receipting and depositing functions at the Equestrian Park. This condition exists because there is only one employee who performs the office duties. This employee must receipt money, handle customer invoices, and both prepare and deliver the deposit. Parks and Recreation must recognize the internal control weaknesses in this situation and take appropriate action to strengthen them.

Even though patrons are given a 10 day grace period, 77.6% of the accounts were past due at some time during 1998. Incidents of past due accounts should be reduced by implementing more effective policies and procedures including the impoundment and selling of horses, when necessary, and consistently charging and collecting late fees.

Please refer to Section III for more details about these and other findings.

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Salt Lake County Equestrian Park

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I. Introduction

The Salt Lake County Equestrian Park in South Jordan is operated as an Enterprise fund by the County's Parks and Recreation Division. The facility serves as a pleasure-horse boarding and riding center for local equine enthusiasts, and a boarding and training hub for professional race horses. It is also the host location for various horse show, racing, and rodeo events.

The Park consists of a 3/4 mile racetrack with an adjacent 2,000 seat grandstand, an office and jockey house, three outdoor rodeo arenas, and two outdoor show arenas. In 1994, property adjacent to the Park that included 130 horse stalls was purchased. This purchase increased the number of stalls available to rent from 168 to the current level of 298. Also, the newly purchased property included several outside runs and open paddocks for boarding horses, a hay storage barn, increased horse walker spaces, and a personal residence.

Construction of a new indoor arena at the Park began late in 1998, with completion scheduled for late summer, 1999. The new arena will have a seating capacity of 3,000 and 102 stalls to be used primarily in conjunction with Park events. The facility will also contain new administrative offices.

Current expansion at the Equestrian Park will allow it to host the Salt Lake County Fair.

The Salt Lake County Fair will be one of the first events held at the newly expanded Equestrian Park. This will be the fair's first year at its new home after many years at the Murray Fairgrounds location. The fair is just one of many new events the County hopes to host at the Equestrian Park after completion of the new arena.

In 1996 the County contracted with KPMG Peat Marwick Convention, Sports, and Entertainment Consulting for a study to determine the feasibility of constructing the indoor arena and supporting facilities. In its report, KPMG estimated an annual increase of 24 events and 62 event days if the addition were completed, and then managed and marketed properly. They further estimated that this increase, along with an anticipated increase in the number of riding/rodeo clubs using the Park after expansion, would more than double the Park's annual operating revenue. The increase would go from about $200,000 that was generated in both 1997 and 1998 to almost $450,000.

During 1998, the Equestrian Park had a staff of three full-time merit employees and seven part-time temporary employees. In addition, the Construction and Maintenance Supervisor for Parks and Recreation has, as part of his duties, the management of the Equestrian Park. The Park's budget for 1998 was $512,002.

II. Scope and Objectives

The scope of this audit included evaluating the Equestrian Park's efficiency and effectiveness in managing leases and rentals for facilities provided at the Park. We also examined the Park's cash receipting and depositing, petty cash, fixed and controlled asset, payroll, and accounts receivable functions. Accordingly, our work was designed to achieve the following audit objectives:

- Determine if applicable lease and rental agreements exist to cover all the various services and facilities provided by the Equestrian Park.
- Determine if appropriate agreements are completed and kept current for all services provided.
- Determine if the terms of the signed lease and rental agreements are complied with, including making payments on time.
- Determine if current rents charged for facilities and services, and proposed rents for the new indoor arena, are appropriate.
- Determine if internal controls with respect to cash receipting and depositing, the petty cash and change funds, fixed and controlled assets, accounts receivable, and payroll are adequate.

Although we performed work designed to address each audit objective, our comments are limited to those areas that address material issues and concerns.

III. Findings and Recommendations

1.0 Rental Agreements

All horse stall, outside run, open paddock, and tack room renters as well as trailer parking space users are required to complete and sign a "Stall Rental/Permit Agreement". As part of the agreement, the renter indicates whether they agree to use the facilities month-to-month or on a six month lease. If they choose a month-to-month arrangement they are required to pay for only the facilities actually occupied and/or used each month. In this case the renter also agrees that any area vacated by them is immediately available to rent to a different patron.

Most horse boarding and tack room patrons must choose between month-to- month and six month lease options.

If the six month lease option is chosen, the renter pays for the agreed upon number of facilities each month during the lease period regardless of the number being used. However, all of the facilities agreed upon and being paid for are reserved for the leaseholder and cannot be rented to someone else during the duration of the lease. According to the Park's "Incorporated Barn Policy" the six month lease agreement is the only way to guarantee the availability of a designated number of horse stalls for a period of time. This option is especially attractive to race horse trainers who often handle many horses for many different owners and shuttle them back and forth between race locations, different training sites, and the owners' facilities.

Instead of signing a "Stall Rental/Permit Agreement", Park patrons that use the arenas and/or track for events and club riding nights are required to complete and sign a "Reservation and Permit Agreement". Those renting walker spaces, concession booth space, and/or using a Parks heavy equipment operator in conjunction with an event also complete this agreement. The "Reservation and Permit Agreement" specifies the type of facilities to be used and or services to be provided, the date of use, the fee to be charged, and spells out the rights and obligations of both the County and the patron.

In addition, the personal residence that is located on the Park property is rented to the Construction and Maintenance Supervisor that manages the Equestrian Park. While not generally in the house rental business, the County does have a limited number of "Rental" and "Lease" agreements in place on other residences it owns.

During our review of Equestrian Park rental agreements we found:

- ***The Equestrian Park reserved stalls and tack rooms for a patron who signed a six month lease agreement but allowed the patron to pay for only those being used.***
- ***There is no formal rental agreement in place for the house at the Equestrian Park.***
- ***Park policies cause the rental rates of some patrons to be excessively prorated.***
- ***Some patron files did not contain a signed rental agreement and 27.5% of agreements on file did not reflect actual usage.***
- ***Open arena, open track, and hay storage patrons are not required to sign any type of rental or use agreement.***
- ***Expired or superseded agreements are discarded immediately.***

1.1 The Equestrian Park reserved stalls and tack rooms for a patron who signed a six month lease agreement but allowed the patron to pay for only those being used.

We compared 1998 payments received to available 1998 signed agreements and an inventory of barn occupancy we conducted in October. We found that one patron signed a six month lease agreement in July for 14 stalls and two tack rooms. The leaseholder was billed for the full amount in August, but then received a credit for 12 stalls, leaving only two stalls and two tack rooms to pay for. Subsequent billings and payments were for up to five stalls and two tack rooms in September and two stalls and one tack room in October. The pre-printed barn inventory sheet we received from Park personnel in October indicated that this patron had all 14 stalls and two tack rooms reserved for the entire period.

One patron was given the occupancy benefits of a lease, but was billed on a month-to-month basis.

Essentially, this patron was given the occupancy benefits of a lease but was billed on a month-to-month basis. If the payment terms of the lease had been enforced, $1,040 per month should have been paid on this lease for a total of $3,120 during the August-October time frame. The actual amount billed and paid during those three months was only $882.09, resulting in a loss of $2,237.91 in potential revenue for that period.

We questioned the Equestrian Park secretary, who handles the billing and rental agreements, and the Equestrian Park Manager about this discrepancy. The secretary stated that the patron involved had complained about the cost of his lease and that she passed these complaints along to the manager, who then instructed her to bill based on the number of stalls occupied. However, the manager told us that although he was aware of some complaints from the patron, he had no knowledge of the billing being done as described above.

In our opinion, all rental terms described and agreed upon should be strictly enforced. This will ensure equity between Park patrons. It will also ensure that the County consistently receives fair and reasonable compensation for the services and facilities provided.

1.1.1 Action Taken:

The secretary received an official administrative responsibilities warning letter for not properly enforcing the terms of the lease. The patron was billed and paid the proper amount for the duration of the lease period.

1.2 There is no formal rental agreement in place for the house at the Equestrian Park.

As we stated earlier, a house located on the Park property is rented by the Park manager and his family. While researching this situation, we found that there is no formal rental agreement between the Park manager and the County. An agreement was prepared in 1995 but was never signed by the parties involved or approved by the Commission. Through discussions with the County's Real Estate section we found that the $500 rent listed on that agreement was far below their estimate of the market rent for the house of approximately $1,000 per month.

The agreement was never finalized because, during the approval process, the Auditor's Office Accounting and Operations Division was made aware of the rent discrepancy. They informed Parks and Recreation that the difference between the actual and market rent would have to be reported as income by the Park manager. At that point, Parks and Recreation stopped pursuing completion of the agreement.

The rent for a house located on the Park grounds is maintained below the market rate to provide an incentive for the Park manager to live there.

Currently, the rent charged is only $400 per month. According to Parks management, the rent is maintained considerably below the market rate to induce the Park manager to live there and accept the inconvenience of Park related after hours phone calls and personal interruptions.

As further incentive to occupy the house, the Park manager's wife is employed by Parks in a part-time position titled "Park Attendant". The Parks Operations manager informed us that the manager's spouse was hired to perform some security related and after hours stall access functions at the Park. He also stated that her pay was set at a rate which would allow her net earnings to equal the amount of the house rent each month.

We researched this situation further and found that:

The Park manager's spouse is on the County payroll but performs very limited, if any, job functions.

- the official "Park Attendant" job description actually describes the duties of the Park's full-time secretary,
- the Park gate that is close to the house, which the Park Attendant is supposed to monitor, is kept locked, except on rare occasions, and
- other personnel, including the Park manager and secretary, usually unlock stalls for patrons after normal operating hours.

In our opinion, Parks' main purpose for employing the Park manager's spouse is to provide income that will offset the rent that is paid, essentially making the house rent free.

The real estate section manager conceded to us that the house would be difficult to rent to a non-County employee because of the inconveniences described above. He also stated that the County is not interested in participating in the rental business but that this house had to be acquired in order to acquire the adjacent property.

According to Section 119 of the Internal Revenue Code, the cost of lodging provided to an employee may be excluded from the employee's income if it is provided for the employer's convenience, on the employer's premises, and it is a condition of the employee's employment. The Commerce Clearing House tax service further defines "provided for the employer's convenience" as, "lodging ... furnished because the employee must be available for duty at all times or because the employee could not perform the required services unless the employer furnished such lodging."

The house could be provided rent free, if Parks determines that it is being provided for the County's convenience and living there is made a condition of employment.

If Parks and Recreation management determines that the handling of after hours questions and/or requests for service at the residence are a necessary aspect of Equestrian Park operations, these duties should be added to the Park manager's job description. If so, living in the house should also be made a condition of his employment. The house could then be provided rent free without it being taxable income to the manager.

If management decides that this service is not required, no job description adjustments would be necessary. In this case, either the rent would need to be raised to reflect market value or the difference between actual and market rent would need to be reported as income by the Park manager, with the County issuing him a W-2 for the amount of the difference. Under either scenario, a formal rental agreement needs to be completed and the Park Attendant position should be eliminated.

1.2.1 Recommendations:

- **A formal rental agreement for the house should be resubmitted through the District Attorney's Office and Contracts and Procurement.**

- **Parks and Recreation management should determine if handling after hours questions and/or requests for service at the residence are necessary for the Park manager to properly perform his duties. If so, his job description should be modified, as described above.**

- **Based on the above decision, the agreement should be written to indicate the nature of the agreement and the corresponding appropriate rent.**

- **The Park Attendant position should be eliminated.**

1.3 Park policies cause the rental rates of some patrons to be excessively prorated.

Several trainers that handle many horses for different owners and frequently move them in and out of stalls are not willing to sign a six-month lease agreement. They prefer to attempt to hold down their cost by signing a month-to-month agreement and paying for only the stalls that are actually in use. When this happens, Park personnel prorate the monthly charges for each stall based on the number of days that the stall was occupied. While examining patron invoices, we noted accounts that were prorated for this reason as many as nine times in one month.

Excessive proration of account balances is an inefficient use of the secretary's time.

This level of proration is excessive and is an inefficient use of the Park secretary's time. In addition, there is often disagreement between Park personnel and patrons as to the exact number of days a particular stall was occupied. These conflicts must be resolved before the prorated charge can be determined, which adds to the secretary's required time and effort in this area.

1.3.1 Action Taken:

Based on existing language in the "Stall Rental/Permit Agreement" which requires that a written notice be given 15 days in advance of terminating an agreement, prorating is allowed only when patrons provide the required notice.

1.3.2 Recommendation:

The language in the permit agreement which requires a 15 day notice for termination should be modified to indicate that this requirement also applies to any changes made to the agreement.

1.4 Some patron files did not contain a signed rental agreement and 27.5% of agreements on file did not reflect actual usage.

As stated earlier, we conducted an inventory of stall, tack room, open run, and open paddock occupancy. We then checked to see if all patrons using the above mentioned facilities had a current and accurate "Stall Rental/Permit Agreement" on file at the Park. We found that 4.8% of the files did not have a rental agreement and of those on file, 27.5% did not reflect actual usage.

Non-existent or inaccurate agreements make it difficult to resolve disputes.

The agreement spells out usage, termination, deposit, fee, lien, collection, liability, insurance, property damage, animal neglect, and other terms between the patron and the County. It is vital that the agreements be kept as current and accurate as possible since any of these factors could easily be disputed by either the patron or the County at any time. The more accurate these agreements are, the more likely it is that any dispute will be resolved in the County's favor.

One of the reasons for the existence of inaccurate agreements is the frequent changes in the occupancy status of some renters, as described in the previous section. To help alleviate the effect of this on the status of the agreements, the Park secretary should verify the existence and accuracy of the agreement whenever she is informed of a change or when updating invoices. The advanced written notice requirement before moving out of stalls should considerably improve her ability to do this.

Occasionally, someone other than the Secretary provides a patron access to Park facilities. When this occurs, the employee providing access generally does not have the patron sign an agreement. This also contributes to incorrect or non-existent agreements.

1.4.1 Recommendations:

- **The Park secretary should verify the existence and accuracy of agreements whenever she is informed of a change or when updating invoices.**

- **Anytime someone other than the secretary provides access to Park facilities which require the completion of a "Stall Rental/Permit Agreement", they should ensure that the current agreement is accurate and/or have the patron sign a new agreement.**

1.5 Open arena, open track, and hay storage patrons are not required to sign any type of rental or use agreement.

During our interviews with Park personnel, we identified some services for which patrons are not required to sign either type of agreement. One of these services is the open use of the arenas and the track. Non-stall renters in this category pay either a daily or annual fee for the right to use the arena and/or track facilities on an individual or group basis, but not in conjunction with an event, or club night. (Stall renters have use of the track and arenas at no extra charge.) These patrons are subject to the same rules, regulations, and liability waiver requirements as event and club users of track and arena facilities. Therefore, they should also complete and sign a "Reservation and Permit Agreement" when purchasing their pass.

Hay storage is another service for which patrons do not sign either agreement. Patrons who use hay storage space pay either on a monthly or a six month lease basis. These patrons rent a specified space from the County for a specified period of time, the same as stall or paddock renters. In so doing, they should abide by the same terms and conditions by signing a “Stall Rental/Permit Agreement”.

1.5.1 Actions Taken:

- **All open arena and track patrons are now completing and signing a “Reservation and Permit Agreement” when they purchase their pass.**

- **The “Stall Rental/Permit Agreement” has been modified to include a space for hay storage space renters and all such patrons are now signing that agreement.**

1.6 Expired or superseded agreements are discarded immediately.

We were unable to verify the appropriateness of agreements and payments for other than current patrons.

In addition to verifying the existence and accuracy of “Stall Rental/Permit Agreements” based on current occupancy during October, we attempted to verify this information for other months during 1998. We were unable to do this because there were only signed agreements available for current patrons. The Park secretary indicated that the agreements are disposed of as soon as they expire or are superseded by another agreement. However, according to the County’s General Records Retention Schedule, these type of agreements should be retained for three years.

1.6.1 Recommendation:

All expired or superseded “Stall Rental/Permit Agreements” should be retained for a period of three years.

2.0 Rental Rates

To help determine if rental rates charged by the Equestrian Park are reasonable and appropriate we conducted a phone survey of eight similar government operated facilities in Utah and Nevada. We questioned the other facilities as to the services they provide and the rates they charge for them. We compared the Equestrian Park’s current rental rates and, where applicable, their proposed rates for the new indoor arena, to the rates charged by the surveyed facilities.

In our opinion, current and proposed rental rates are appropriate.

We found no material differences between the current and proposed Equestrian Park rates and those of the surveyed facilities. In our opinion, the rental rates and fees charged by the Equestrian Park are appropriate. However, while conducting our inventory of the Park's facilities and occupancy, and comparing it to actual payments received, we noted some areas where corrections and improvements are necessary. Specifically, we found:

- ***Daily inventories by Park personnel do not include the open paddocks, outside runs, trailer parking, and hay storage areas.***

- ***Rent is not being charged for a tack room in each of two indoor barns.***

- ***Rent charged for one section of outside uncovered stalls is less than the amount listed on the fee schedule for that type of stall.***

2.1 Daily inventories by Park personnel do not include the open paddocks, outside runs, trailer parking, and hay storage areas.

To verify the Park's occupancy level, employees conduct a daily "barn inventory". While accomplishing our own verification of the Park's usage, we noted that the pre-printed barn inventory form used by Park personnel lists only stalls and tack rooms. The Park secretary, who usually does the daily inventory, confirmed that on most days the stalls and tack rooms are the only areas checked.

Many easily accessible areas of the Park are not checked for occupancy status.

As mentioned earlier, the open paddocks, outside runs, trailer parking, and hay storage areas are all rented in a similar fashion as the stalls and tack rooms. Furthermore, they are more easily accessible than stalls and tack rooms, making it more likely that they could be used without Park personnel's knowledge. Including these areas in the daily inventory could alleviate this problem. For example, during our inventory we noted one paddock for which the patron was paying rent for only three horses, but actually had five horses in the paddock.

A more comprehensive daily inventory will help ensure that patrons are paying rent for all the facilities they are using. It will also help the Park secretary confirm the accuracy of rental agreements on file, as we recommended earlier.

2.1.1 Action Taken:

The pre-printed barn inventory forms have been redesigned to include spaces for the number of horses in paddocks and runs, the number of trailers parked in the trailer parking area, and the number of hay storage

slots being used. These items are now verified daily as part of the barn inventory.

2.2 Rent is not being charged for a tack room in each of two indoor barns.

While conducting our inventory of the two larger indoor barns, we noted that there appeared to be four tack rooms in each barn, although the barn inventory form showed only two. Upon further investigation and through discussions with Park personnel, we determined that there is one tack room in each barn for which rent is not being charged.

Rent was not being charged for two rooms because Park personnel were unaware of their existence.

These rooms are connected to another much larger tack room by an interior door and are also accessible from the main barn corridor. Park personnel stated that the reason rent has not been charged for these rooms is that they thought the door leading to these small rooms from the corridor was just a second door into the large tack rooms.

While the rooms which are not being rented are smaller than the adjacent tack rooms, they are twice the size of standard tack rooms which are connected to the outside barn buildings. These standard tack rooms rent for $15 a month. Therefore, in our opinion an appropriate rent for the smaller tack rooms in the indoor barns would be $30.

2.2.1 Recommendation:

The Equestrian Park should begin charging rent for the smaller tack rooms in the indoor barns. The fee should be set at $30 a month.

2.3 Rent charged for one section of outside uncovered stalls is less than the amount listed on the fee schedule for that type of stall.

A patron is being allowed to pay $105 per month less than he should for a section of stalls.

The Equestrian Park fee schedule lists the fee for rental of an outside uncovered stall at $25 per month. Patrons renting a stall in one 12 stall section of the Park are charged this amount. However, we found another area with nine stalls that have almost identical characteristics to those in the 12 stall section. The patron renting these stalls pays only $120 per month for the entire section, or $13.33 per stall.

Park personnel stated that the discrepancy arose because a former patron constructed the nine stall section himself a few years ago. Because of this, he was charged the lesser amount, as described above, to rent the stalls. When that patron left the Park and the stalls were rented to someone else, the fee remained at the same level. To maintain consistency and fairness among patrons and to increase the Park's revenue to an appropriate level for the facility provided, the rent for these stalls should be increased to $25 per stall.

2.3.1 Recommendation:

The rent charged for the nine stall section of outside uncovered stalls should be increased to $25 per month.

3.0 Cash Receipting and Depositing

The same Park employee receipts money, maintains customer accounts, and prepares the deposit.

In general, we found a lack of separation of duties in, and supervisory review of, the cash receipting and depositing functions at the Equestrian Park. The primary reason for this is that there is only one employee performing the office duties at the Park. This employee, usually the Park secretary, must receipt money, handle customer invoices, and both prepare and deliver the deposit. There is also no on-site supervisor present, making timely review of these functions virtually impossible.

This situation is contrary to the intent of Countywide Policy 1062, Management of Public Funds. Section 2.8.1 of that policy states, "The duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities and falsifications of accounts. The objective is to provide the maximum safeguards practicable, giving due consideration to the risks involved and the cost of maintaining controls."

In conjunction with the Park expansion, Parks and Rec plans to hire a full-time Program Manager. This person will maintain their office at the Equestrian Park and will serve as a supervisor to the secretary. We believe this new employee can help to provide the separation of duties and/or supervisory reviews necessary to mitigate a considerable amount of the risk that currently exists. Many of the recommendations in this section should be easier to implement once the Program Manager is hired.

In addition, Parks management intends to acquire a new computer system to be ready for use as Park personnel move into the new administrative offices. As this system is selected and implemented management should ensure that it has the capability of automating many of the financial processes that are currently done manually.

Specific cash receipting and depositing findings are:

- ***Cash handling and account posting duties are not separated.***
- ***Cash receipting and deposit preparation duties are not separated or reviewed.***
- ***Amounts receipted from the second highest revenue source, track and arena rentals, are not verified against actual usage.***
- ***There is no written supervisory approval and/or authorization of waived and adjusted fees.***
- ***The reason receipts are voided is not documented on the front of the receipt.***
- ***Voided receipts are not reviewed and signed by a supervisor.***
- ***Deposits are not always made in a timely manner.***

3.1 Cash handling and account posting duties are not separated.

The lack of separation of cash receipting from posting of accounts creates an opportunity for funds to be diverted.

As mentioned above, one person, usually the Park secretary, performs both the cash handling and the account posting functions. Under these conditions, the secretary could easily divert funds to personal use by accepting payments but not filling out a receipt and posting the account paid. Separating the cash handling functions from posting of account records is the best way to minimize this risk.

If separation of these duties is not practical, an alternative solution would be to have a person independent of the receipting and posting functions reconcile amounts credited to patron accounts (by using invoices) to amounts recorded on receipts for stall rentals. To facilitate this monthly reconciliation, revenue for walker rental, currently listed as a separate category, could be shifted to stall rental. In addition, revenue for trailer parking, which is currently included in the admin/bldg category, could also be shifted to stall rental. By doing this, all services that are invoiced monthly will be in the same revenue category on the receipt ledger, thereby eliminating the need to make adjustments to complete the reconciliation.

3.1.1 Recommendations:

- **Either, separate the cash handling from the account posting duties, or**

- **Transfer revenue from walker rental and trailer parking to the stall rental category and have an independent person perform a monthly reconciliation of payments credited to patron accounts to amounts received and deposited for stall rental.**

3.2 Cash receipting and deposit preparation duties are not separated or reviewed.

Currently the Park secretary both receipts funds and prepares the deposit. Ideally, these duties should also be separated. If lack of available personnel makes this impossible, an independent party must review the daily cash balancing process. In either case, a supervisor that is independent of both cash receipting and deposit preparation must review the deposit before it is made.

The purpose of these reviews are to ensure that:

- an accurate cash balancing procedure is completed each day,
- the amount of money collected agrees with the amount receipted,
- all monies receipted are included in the deposit,
- the deposit slip is totaled correctly, and
- the cash/check composition of the deposit agrees with cash and checks collected.

The person(s) performing daily cash balancing and deposit preparation review should document that they completed the review with a signature.

3.2.1 Recommendations:

- **Either the cash receipting and deposit preparation functions should be separated or, if impossible to accomplish, an independent party should review the daily cash balancing.**

- **A supervisor should review the daily deposit before it is made.**

- **The person(s) performing these reviews should certify that the reviews were completed by signing the "Equestrian Park Cash Reconciliation Report".**

3.3 Amounts receipted from the second highest revenue source, track and arena rentals, are not verified against actual usage.

Reconciliations of the dollar amount that should have been received, according to actual usage, to the dollar amount actually received and deposited, help to ensure that all money received is, in fact, deposited. County organizations should accomplish these reconciliations, particularly with respect to operations that bring in significant revenue.

A comparison of payments credited on invoices to amounts received for stall rentals should be made.

Usage for the Park's main revenue source, stall rentals, is measured by the daily barn inventories, the results of which are reflected on patron invoices each month. Comparing payments credited on invoices to payments receipted on the receipts, as we recommended earlier, accomplishes such a reconciliation for that revenue source.

While examining the Equestrian Park's cash receipting procedures, we determined that the capability to accomplish a usage vs. receipts reconciliation also exists for their second highest source of revenue, track and arena rentals. However, they are not currently performing this step.

"Reservation and Permit Agreements" should be pre-numbered so they can be properly accounted for.

To be able to complete this reconciliation, the Park must first pre-number their "Reservation and Permit Agreements" and use them in consecutive order. Currently these agreements are not pre-numbered, making it impossible to account for them. Once pre-numbered, Park personnel could keep a log of the issued agreements. An example of such a log is in Appendix A, Reservation and Permit Agreement Log. This log could then be reconciled to the amount of money receipted for track and arena rental, as well as training, each month. To increase the effectiveness of this control, the employee that issues the agreements should not also collect the payments associated with them.

3.3.1 Recommendations:

- **Pre-number the "Reservation and Permit Agreements" and use them in consecutive order.**

- **Separate the cash receipting and "Reservation and Permit Agreement" issuing functions.**

- **Record all issued "Reservation and Permit Agreements" in a log.**

- **Each month, reconcile the amount of money that should have been received for Track and Arena Rental and Training, according to the log, to the amount actually received and deposited for those categories, according to the receipts.**

3.4 There is no written supervisory approval and/or authorization of waived and adjusted fees.

Currently the Park does not require written approval of waived and adjusted fees.

While examining patron invoices, we noticed several annotations indicating that fees, usually late fees, were waived per instructions from the Park manager. However, there was no indication as to why the fees were waived and no supervisor signature indicating that he had actually waived the fee. The Park secretary also stated that the manager will often direct her to adjust fees for various reasons, usually this is done over the phone. In these cases there is also no written explanation or approval indicated on either the customer invoice or agreement.

With no fee waiver or adjustment approval process in place, the secretary could easily collect a full payment, then indicate that part or all of the payment was waived, and divert the funds to personal use. Lack of a written approval on adjusted fees can also cause other problems, such as the apparent misunderstanding of the proper fee to be charged, as was discussed in section 1.1 of this report.

3.4.1 Recommendation:

A supervisor should indicate approval and/or authorization of waived and adjusted fees by indicating on the appropriate invoice and/or agreement, "Fee waived" or "Fee adjusted", a written description of the reason for the waived or adjusted fee, and a signature.

3.5 The reason receipts are voided is not documented on the front of the receipt.

Section 3.13.1 of Countywide Policy 1062, Management of Public Funds, states that "When it is necessary to void a receipt, all copies will be marked "Void". The cashier who initiated the void will document on the front of the receipt the reason it was voided. ...copies of the voided receipts will be kept for audit purposes." Our review of 1998 receipts from the Equestrian Park indicated that seven receipts were voided during the year. No copies of these receipts were retained and the Park secretary stated that the reasons for the voids were not documented on the receipts.

3.5.1 Recommendations:

- **Document the reason a receipt was voided on the front of all voided receipts.**

- **Retain a copy of all voided receipts and attach them to the day's "Equestrian Park Cash Reconciliation Report".**

3.6 Voided receipts are not reviewed and signed by a supervisor.

The County Management of Public Funds policy requires that supervisors review and sign voided receipts.

The same section of Countywide Policy 1062 also says, "A Supervisor or designee not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void." These provisions are included in the policy to prevent a cashier from having the ability to accept a payment, issue a receipt, indicate in the receipt ledger that the receipt was voided, and then divert the funds to personal use. Once again, the Park secretary told us that neither persons receipting money nor supervisors at the Park ever review and sign voided receipts.

3.6.1 Recommendation:

A supervisor and the person who initiated a void should review and sign all voided receipts.

3.7 Deposits are not always made in a timely manner.

We examined a random sample of Equestrian Park deposits made during 1998. We found that 16% of those deposits were not made in a timely manner according to the guidelines established in Countywide Policy 1062. The policy requires that, "Receipts of $250 or more ($50 in cash and $200 in checks) will be deposited on a daily basis. Receipts of less than $250 may be accumulated and deposited when the total reaches $250; however, deposits will be made no less frequently than weekly regardless of the amount accumulated."

3.7.1 Recommendation:

All deposits should be made in a timely manner in accordance with Countywide Policy 1062.

4.0 Accounts Receivable

Although all Park rental and lease payments are due in advance, anytime patrons are paying for services on a recurring monthly basis it is inevitable that some of them will pay late. We found this to be true at the Equestrian Park, as we examined 1998 invoices. We found that, even though patrons are given a 10 day grace period, 77.6% were at least three days past due at least one time during the year. This creates an accounts receivable situation that must be properly managed.

During our examination of the Park's handling of past due accounts we found that:

- ***There are no written policies and procedures covering accounts receivable.***
- ***Patron balances are often allowed to increase for too long before any serious collection attempt is made.***
- ***Eighty-seven percent (87%) of patrons with past due accounts were not consistently assessed appropriate late fees.***
- ***Current Park policies cause late fees to be excessively high and often unfair.***

4.1 There are no written policies and procedures covering accounts receivable.

Any organization that has past due balances should have a written policy that defines how these accounts are to be managed. We found that, while there is some language in the "Stall Rental/Permit Agreement" that addresses late fees and collection procedures, the Equestrian Park does not have a written policy on accounts receivable.

An effective accounts receivable policy should include:

- a requirement for accounts to be billed monthly,
- a requirement for a monthly aging schedule to be prepared and reviewed by management,
- a requirement for past due notices to be sent and late fees charged after an account is a specific number of days past due,
- the specific number of days past due at which time further collection action will be taken, and,
- the specific action that will be taken.

Park personnel are uncertain about procedures related to past due accounts.

Our discussions with Park personnel on this issue indicate that there is confusion and uncertainty about what to do and when to do it in regards to past due accounts. The establishment of written policies and procedures should help alleviate the confusion and uncertainty.

4.1.1 Recommendation:

Equestrian Park management should establish comprehensive written policies and procedures to govern accounts receivable.

4.2 Patron balances are often allowed to increase for too long before any serious collection attempt is made.

Past due accounts are not sent to the District Attorney for collection until patrons vacate the Park without notice.

Thirty-seven percent (37%) of the patrons that were at least three days past due sometime during 1998 were at least 30 days late or carried a past due balance for more than 30 days sometime during the year. Only 28.6% of such accounts had any mention of collection or impoundment efforts on the invoices. Seven accounts were eventually sent to the District Attorney's Office for collection. However, in all cases this occurred only after the patron had taken their horses out of their stalls after normal business hours and vacated the Park without informing Park personnel. Among those that were still active Park patrons as of October, 1998, the most severe case was a patron that carried a past due balance for six consecutive months. During that time frame, the balance reached a high of $920.00.

The only recourse mentioned in the "Stall Rental/Permit Agreement" to combat excessively past due accounts is the impoundment and sale of property, including animals. In fact, the agreement, which was drafted in conjunction with the Attorney's Office, states that the County is granted a first lien against patron's property that is housed at the park. It goes on to say that the County has the right to sell that property if, "charges remain unpaid for a period of 30 days after invoicing". Despite this provision of the agreement and the problems the Park has with past due accounts, they have never impounded any property.

Park management is hesitant to impound horses.

While conducting our phone survey of similar government operated facilities in Utah and Nevada, we asked if any of them had problems with late or non-paying patrons and what action they took to correct the problems. Several mentioned that they moved the horses in question to different stalls and put their own lock on the stall, in effect impounding the horse. They stated that upon doing this the past due balances were quickly taken care of and that they rarely experienced significant past due accounts after doing this once or twice. In addition, the Brand Inspector for the State of Utah, who must be notified when an impoundment and sale of an animal takes place, told us that it is becoming an increasingly common practice.

4.2.1 Recommendations:

- **The Equestrian Park should enforce the impoundment provisions described in the "Stall Rental/Permit Agreement".**

- **The Equestrian Park should include specific impoundment procedures in their written Accounts Receivable Policies and Procedures.**

4.3 Eighty-seven percent (87%) of patrons with past due accounts were not consistently assessed appropriate late fees.

The "Stall Rental/Permit Agreement" states that rent is payable each month, in advance. However, it goes on to say that payments may be received through the 10th of each month before a late fee is assessed. Using the 10th as criteria and allowing for an extra three days to account for possible weekends and holidays, we checked patron accounts and found that 86.8% of those at least three days past due were not consistently assessed appropriate late fees.

Many of these patrons were late several times, but were never charged a late fee. Some received a late fee charge occasionally, while others had some late fees originally listed on their invoice that were later waived and not paid. Late fees can be an effective deterrent against late payments, but they must be applied consistently or patrons will quickly learn that they can go without paying until after the due date without penalty. Also, allowing this to happen is unfair to those few patrons who are charged and pay late fees.

The current manual process for inputting late fees is very time consuming.

Under the current system, the Park secretary has to manually enter late fees into the computer for each account. This is a time consuming process and is usually not completed before payments arrive. If a payment arrives late, but before the late fee has been assessed on the patron's account, the secretary credits the payment but does not enter the late fee.

Park management should ensure that the newly acquired computer system is capable of automatically calculating and entering the late fee on the 11th of each month. In the interim, however, when a late payment is received the secretary should enter the late fee at the same time payment is posted, since the late fee will appear on the invoice to be sent out at the end of that month. Late fees should be posted whether or not a payment was received.

4.3.1 Recommendations:

- **Equestrian Park management should ensure that the newly acquired computer system will automatically calculate and enter late fees for all patrons that haven't paid by the 11th of the month.**

- **Until the new system is acquired and implemented, the secretary should post late fees to late accounts when payment is received, if the late fee has not already been posted.**

4.4 Current Park policies cause late fees to be excessively high and often unfair.

Late fees are assessed on a flat rate basis, rather than a percentage of the past due balance.

Another reason Park personnel may be hesitant to assess late fees and quick to waive them is that the fees are assessed at a rate of $10 per whatever is being rented. In some cases this is excessively high and unfair. For example, one patron rents seven outside uncovered stalls at a rate of $25 per stall, or $175 per month. If a late fee were charged to this account under the current system, it would be $10 per stall, or $70 for the month. At the same time, a patron that is paying $250 a month for an open paddock, which can hold up to six horses, would only be charged a late fee of $10 per month. Another extreme example would be a patron that is renting only one walker space at $15 per month would also be charged a $10 late fee.

A negative consequence of assessing late fees on a flat rate basis is that it can be a disincentive to making any payment. When a late fee is charged, it is often not paid which leads to a quicker escalation of the patron's balance. This apparently becomes the impetus for patrons to vacate the Park after hours without informing Park personnel, or paying their bill. Five of the seven patrons that left under these conditions during 1998 did so shortly after having late fees added to their account.

4.4.1 Recommendation:

Late fees should be calculated based on a percentage of the past due balance (perhaps 5%) each month.

5.0 Fixed and Controlled Assets

In December, 1997, the Parks and Recreation Division approved policy #PR120, "Salt Lake County Parks & Recreation Division Policy On Safeguarding Controlled And Fixed Assets". This policy designates certain individuals throughout the Parks & Recreation Division as "Assistant Property Managers". They are established to assist the Division Property Manager properly account for and safeguard the division's assets.

Parks and Recreation has established an excellent fixed and controlled asset policy.

We reviewed this policy and, overall, found it to be an excellent policy that, if followed, should greatly improve the control of both fixed and controlled assets within Parks & Recreation. We commend management for establishing and implementing this policy.

We do have two Equestrian Park fixed and controlled asset findings. They are:

- ***The Assistant Property Manager can transfer or loan assets between the Equestrian Park and Parks without anyone else's knowledge.***

- ***The Equestrian Park has not completed any controlled asset inventory forms.***

5.1 The Assistant Property Manager can transfer or loan assets between the Equestrian Park and Parks without anyone else's knowledge.

Since they are separate budgetary units with their own organization numbers, the Equestrian Park and Parks have their fixed assets accounted for separately on the Auditor's AFIN system. Both organizations also have the same person designated as their Assistant Property Manager. Therefore, when transferring or loaning assets between these organizations, the same person must sign as the representative of both the transferring/loaning and the receiving/borrowing organization.

When this situation occurs, the Assistant Property Manager should obtain a supervisor's approval for the transaction. That approval should be indicated by the supervisor's signature on the applicable PM-2 (for transfers) or PM-3 (for loans).

5.1.1 Recommendation:

- **The Equestrian Park Assistant Property Manager should obtain a supervisor's approval on the PM-2 or PM-3 form when transferring or loaning assets between the Equestrian Park and Parks.**

5.2 The Equestrian Park has not completed any controlled asset inventory forms.

Controlled assets are personal property items that cost greater than $100 but less than the current capitalization rate of $3,000 and that are sensitive to conversion to personal use. These items are not tracked centrally by the Auditor's Office as fixed assets are, but are solely the responsibility of the organization possessing them. Countywide policy #1125, "Safeguarding Property/Assets", requires that organization's Property Manager's, "maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody".

Both the Countywide and the Parks and Recreation policies contain forms that can be used to list and track the location of controlled assets. We found that while the Equestrian Park is in the process of developing these lists, they did not have any completed as of the end of our audit work.

5.2.1 Recommendation:

The Equestrian Park Assistant Property Manager should list all the Park's controlled assets on a "Salt Lake County Parks & Recreation Division Controlled/Fixed Asset Inventory Log". This should be completed before the Park expansion is finished.

Reservation and Permit Agreement Log

Date	Permit #	Patron name	Reservation & Permit use	Date(s) of use

SALT LAKE COUNTY

Brent Overson
Salt Lake County Commissioner

Julianne Peck
Department Director
Community & Support Services Department

David Marshall
Associate Director
Community & Support Services Department

Glen Lu
Division Director

May 26, 1999

Dave Beck, Chief Deputy
Salt Lake County Auditor's Office
Salt Lake County Government Center
2001 South State Street, Suite N-2200
Salt Lake City, Utah 84190-1100

Ref: **Parks & Recreation Division Responses to the Performance Audit of the Equestrian Park**

Dear Dave:

The Parks & Recreation Division has reviewed the Performance Audit of the Equestrian Park and, per the instructions contained in your correspondence dated May 11, 1999, prepared written comments responding to the recommendations contained in the report.

We trust that you will find our comments and actions responsive to the content and recommendations of the audit report.

Sincerely,

Glen Lu

Glen Lu, Director
Parks & Recreation Division

glc/glc

Attachment

PARKS REC
Salt Lake County Parks & Recreation
Room S4700, 2001 S. State Street, Salt Lake City, Utah 84190 (801) 468-2299

SALT LAKE COUNTY PARKS & RECREATION

RESPONSES TO A PERFORMANCE AUDIT OF THE EQUESTRIAN PARK

MAY 1999

RESPONSE 1.1:

The Equestrian Park has been offering a six-month lease agreement option to a large number of facility users since 1996. The incident identified in section 1.0, Rental Agreements, is isolated and not part of the operational philosophy at the park. Disciplinary action was taken against the employee involved in this infraction, as indicated in the findings report section 1.1.1. Equestrian Park management will continue to monitor and enforce agreements as written.

RESPONSE 1.2:

A formal agreement will be executed for rental of the house at the Equestrian Park. Due to the inconveniences associated with living there, however, the market value (monthly rental rate) is difficult to accurately determine. Parks & Recreation will maintain the rental rate of the house at $400.00 per month, unless conditions and circumstances change appreciably and the inconveniences can be eliminated.

The job description for the Park Attendant will be revised to accurately reflect the duties pertinent to that position.

RESPONSE 1.3:

The park's practice has been to prorate billings to coincide with actual stall usage. The park agrees that 15 days written notice be given on terminating the agreement and will enforce this policy. Park management believes it would be appropriate to eliminate, or at least minimize, proration as a regular billing procedure.

Park management feels, however, that 15 days written notice on any modification other than termination is not feasible, due to the unique nature of the horse industry. Horses may die, be sold, acquired, or injured at any time, making the 15 day written notification requirement moot and ineffective.

RESPONSE 1.4:

The audit report recommendation, section 1.4.1, has been implemented at the park.

Stalls are to be opened only by employees capable of initiating a stall agreement. Should, however, a stall be opened after normal business hours and an agreement cannot be immediately initiated, pertinent information will be taken from the patron and an agreement will be properly executed the following business day.

RESPONSE 1.5:

The audit report recommendation and actions taken, section 1.5.1, have been implemented at the park.

RESPONSE 1.6:

Per the audit report recommendation, section 1.6.1, all expired or superseded agreements will be kept on file for a period of three years in compliance with the retention schedule guideline.

RESPONSE 2.1:

The audit report recommendation and action taken, section 2.1.1, have been implemented at the park.

RESPONSE 2.2:

Due to the design of the barn the small adjacent tack rooms were not being rented as separate units. In compliance with the audit report recommendation, section 2.2.1, both smaller tack rooms are being rented as separate units according to the suggested fee amounts.

RESPONSE 2.3:

Under the terms of a new agreement a uniform rate of $25.00 is being charged for all outside, uncovered stall units. Subsequently, the audit report recommendation and action taken, section 2.3.1, have been implemented at the park.

RESPONSE 3.1:

The Equestrian Park recognizes the problem of having limited staff at the park to comply explicitly with the best accounting practices. Nonetheless, the performance audit revealed no improper use of funds or examples of negligence in the park's cash handling practices. With the addition of the Program Manager's position at the park a separation of accounting functions is now more feasible and currently being addressed.

Per the recommendations of the audit report, the park has moved walker rental and trailer parking to the stall rental category. The Program Manager is also performing daily and monthly reconciliation per the recommendations contained in section 3.1.1 of the report.

RESPONSE 3.2:

Due to operations and staffing limitations at the park, it is not feasible for the division to add more staff for the sole purpose of separating cash receipting and deposit preparation functions. The park Program Manager currently reviews the daily deposit and verifies the daily reconciliation report, certifying that both functions have been performed properly and accurately. We believe this complies with the intent of the recommendations contained in section 3.2.1.

RESPONSE 3.3:

Permit agreements are currently pre-numbered and used in consecutive order, as are the receipts. Operations and staffing limitations at the park make it unfeasible for the division to add more staff for the sole purpose of separating cash receipting and agreement preparation functions. The park Program Manager and the secretary are involved in fulfilling these tasks, which complies with the intent of the recommendations contained in section 3.3.1 of the audit report.

A procedure for recording agreements in a log and reconciling them against invoices has been implemented in compliance with the recommendations of the audit report.

RESPONSE 3.4:

In compliance with the recommendations contained in section 3.4.1 of the audit report, the Program Manager currently annotates approval of fee reductions or waivers and validates all such actions with his signature.

RESPONSES 3.5 AND 3.6:

The Equestrian Park was unaware of the documentation requirement for voided receipts. It has, however, implemented the recommendations contained in sections 3.5.1 and 3.6.1 of the audit report to include a written explanation for voiding a receipt and an approving signature of a supervisor; whereupon the receipt is attached to the reconciliation sheet.

RESPONSE 3.7:

The Equestrian Park is currently complying with County-wide Policy #1062 per the recommendation contained in section 3.7.1 of the audit report.

RESPONSE 4.1:

The Equestrian Park management believes the rental agreement signed by park patrons addresses the issues of past due accounts, late fees, and collection procedures sufficiently. Additional policies would only tend to confuse the process more and guarantee no more enforceability nor ensure that past due amounts would be easier to collect. The

Equestrian Park staff will enforce the conditions contained in the rental agreement as an alternative to preparing additional written procedures.

RESPONSE 4.2:

The Equestrian Park is working to improve its collection and impounding processes in conjunction with the Salt Lake County Attorney's Office. The park's experience in impounding animals as a payment collection procedure is fraught with problems and variables, such as:

- The horse(s) in question may be owned by someone other than the permittee. This becomes a tenuous legal issue: the County impounding property not belonging to the debtor.

- Liabilities and costs associated with the uniqueness of the horse industry quickly exacerbate the problem, based on:
  - Animal feeding schedules;
  - Specific requirements associated with individual health needs;
  - Exercising each animal properly;
  - Specific medication requirements for individual animals;
  - Grooming responsibilities;
  - Supplemental needs for each animal, and;
  - Handling risks.

- Impoundment efforts of the past have resulted in locks being cut and animals surreptitiously removed from the park, as-well-as sundry damages to the facility.

- Costs associated with labor, feed, bedding, veterinary expenses, and handling fees can quickly exceed the value of the horse, which is important in trying to reduce the unpaid balance of past due accounts and not increase the costs accruing to the Equestrian Park.

The park's experience in collecting past due accounts has shown a variety of procedures more effective than impoundment. Those efforts include: (1) using the governing bodies of associations with which the permittee is affiliated to encourage payment of delinquent accounts, and (2) eviction and referral of the account to the Salt Lake County Attorney's Office for collection.

If all other collection efforts fail then impoundment will be pursued according to the recommendations found in section 4.2.1 of the audit report.

RESPONSES 4.3 AND 4.4:

Late fees are currently assessed on the 11th of each month. The Equestrian Park is in the process of procuring a computer software package that will automatically assess a late fee if payment has not been received by the 10th of each month, at a percentage of the unpaid balance. This procedure will comply with the intent of the recommendations contained in section 4.3.1 of the audit report.

RESPONSE 5.1:

Part of the Equestrian Park Program Manager's responsibility include the duties of the Assistant Property Manager. This will rectify the problem of having one employee responsible for transferring/loaning and receiving/borrowing fixed and controlled assets between the Equestrian Park and Park Operations. This complies with the intent of the recommendations contained in section 5.1.1 of the audit report.

RESPONSE 5.2:

The Equestrian Park Program Manager has completed a controlled asset inventory log, which is on file for review per the recommendations contained in section 5.2.1 of the audit report.