



An Audit of the
Salt Lake County
Parks and Recreation
Division's
Point of Sale System

Report Number 2015-03
August 2015

Scott Tingley, CIA, CGAP
Salt Lake County Auditor



OFFICE OF THE
SALT LAKE COUNTY AUDITOR



SCOTT TINGLEY
CIA, CGAP
Salt Lake County Auditor
STingley@slco.org

CHERYLANN JOHNSON
MBA, CIA, CFE
Chief Deputy Auditor
CAJohnson@slco.org

2001 S State Street, N3-300
PO Box 144575
Salt Lake City, UT 84114-4575

(385) 468-7200; TTY 711
(385) 468-7201 / fax

August 1, 2015

Martin Jensen
Director, Parks and Recreation Division
Salt Lake County Government Center
2001 S State Street, Suite S4-700
Salt Lake City, UT 84114-4575

Dear Martin,

Transmitted herewith is our completed audit report, ***An Audit of the Salt Lake County Parks and Recreation Division's Point of Sale System*** (Report Number 2015-3). In our report, we identify findings, and recommend actions to improve operations, ensure greater accountability, and better safeguard County assets.

We appreciate the time and efforts of the County employees that assisted with our audit work, and are sure that the results of this report will prove useful in improving County governance, internal controls, and mitigating risks.

We will be happy to meet with you or any Parks and Recreation Division staff to discuss any item contained in the report for clarification or in order to facilitate the implementation of the recommendations.

Sincerely,

Scott Tingley

Scott Tingley, CIA, CGAP
Salt Lake County Auditor

Cc: Ben McAdams, County Mayor
Darrin Casper, Chief Financial Officer
Erin Litvack, Department of Community Services Director
Lori Okino, Department of Community Services Fiscal Administrator

ST/rr



THIS PAGE LEFT BLANK INTENTIONALLY

EXECUTIVE SUMMARY

We recently completed an audit of the Salt Lake County Parks and Recreation Division's (Parks and Recreation) point-of-sale (POS) system and collections and depositing processes. The audit was aimed at providing Parks and Recreation management and other stakeholders with information about the POS system's user access controls and segregation of duties within the system. In addition, our analysis looked at POS system daily balancing procedures, to determine the accuracy of revenue tracking and reporting at the recreation centers where the system is used. We also reviewed POS transaction adjustments such as voids, discounts, and refunds, to identify which recreation centers ranked highest in the number of adjusting transactions.

Point of Sale System User Access Controls were Inadequate and Created an Opportunity for Fraud

Limitations within Parks and Recreation's point-of-sale software contributed to an environment of weak user access controls. We found that the application allows only one system administrator login and password to create new users. We also discovered that the same system administrator account login and password was shared among all of the recreation centers throughout the County and Parks and Recreation administrative staff. Having one shared system administrator account allows users to make high-level changes within the system that cannot be traced back to a specific individual if needed.

In addition, the point-of-sale software did not offer role-based user access settings. Role-based user access settings standardize user account access by allowing system administrators to select the access rights

granted to employees based on their job duties or functions, instead of selecting individual settings each time a new user is added to the system.

We noted that there were insufficient written standards for user access controls. The lack of written guidance, combined with a decentralized system administration methodology, resulted in differences from one recreation center facility to another in the way user access rights were granted. Furthermore, we found that the majority of users typically had more access to system functions than their jobs generally required.

Adjusting Transactions and Daily Deposit Procedures Did Not Have Proper Segregation of Duties

During our audit we found that Parks and Recreation did not have adequate written policies regarding entering adjustments, issuing credits to recreation center customers, or granting discounts in the point-of-sale system. We also found that Parks and Recreation administration did not monitor adjusting transactions, such as voids, credits, and discounts at the individual County recreation centers as a standard business practice.

In addition, we identified a lack of separation of duties between cashiering functions, deposit preparation, and deposit reconciliation at several recreation centers. This weakness resulted in an elevated risk of errors and created an environment where fraudulent transactions could be made without detection.

Manual Reconciliation Processes were Inefficient and Increased the Likelihood of Accounting Errors

We noted that some electronic funds transfer (EFT) payments made by patrons were not recorded in the point-of-sale system. We also

identified variations in revenue reporting practices between recreation centers. For example, when revenue is collected at one recreation center for events or programs held at another facility, we noted that adjustments were made to transfer the revenue between the recreation centers in the County's financial

system, but changes were not made in Parks and Recreation's point-of-sale system. In addition, we found that the manual bank reconciliation processes were inefficient, duplicated efforts, and increased the risk of errors and omissions.



An Audit of the
Salt Lake County
Parks and Recreation Division's
Point of Sale System

Report Number 2015-03

August 2015

Scott Tingley, CIA, CGAP
Salt Lake County Auditor

Cherylann Johnson, MBA, CIA, CFE, CRMA
Chief Deputy Auditor

Audit Staff:
Brenda Nelson, MBA, CISA
Eloy Leal
Leonardo Flores



THIS PAGE LEFT BLANK INTENTIONALLY

TABLE OF CONTENTS

Executive Summary.....	1
Introduction	7
Audit Scope and Methodology	7
Summary of Findings and Recommendations	9
Section 1: Point of Sale System User Access Controls	11
Finding 1: The System Administrator account user ID and password were shared between recreation centers throughout the County.	11
Finding 2: Parks and Recreation did not have written standards or policies for employee role based user account management in the POS system.	12
Finding 3: Employee user accounts were not always assigned with the least amount of system privileges for each employee’s essential job duties or functions.....	14
Finding 4: Inactive POS system user accounts were not periodically identified and removed from the system.	14
Finding 5: Parks and Recreation did not have written standards or policies regarding reviewing and monitoring recreation center POS system administration functions.	15
Section 2: Adjusting Transactions and Daily Depositing Procedures.....	17
Finding 6: Inadequate segregation of duties between employees who performed cashiering functions and prepared daily deposits created the opportunity for fraud and misuse of public funds.	17
Finding 7: Internal control weaknesses within the POS system with regard to adjusting transactions created an opportunity for fraud and misuse of public funds.....	18
Section 3: Recording Revenue and Bank Deposit Reconciliation	19
Finding 8: Revenue recorded in the POS system did not reconcile to amounts reported in the County’s financial system or bank statements.	19
Finding 9: The manual revenue reporting process was inefficient and a duplication of Parks and Recreation staff effort.....	20
Finding 10: The monthly bank deposit reconciliation process for each recreation center was done manually, which created a greater risk for accounting errors.....	20
Conclusion.....	23

THIS PAGE LEFT BLANK INTENTIONALLY

INTRODUCTION

The mission of the Salt Lake County Parks and Recreation Division is “improving lives through people, parks, and play.” Parks and Recreation operates over 20 recreation and fitness centers, swimming pools, public parks, and golf courses located throughout Salt Lake County. Recreation centers use a point-of-sale system to track daily revenue, membership records, and sales of passes to patrons for fitness classes and other recreation programs. Parks and Recreation’s budgeted revenue for 2014 was \$19 million, with an additional \$13 million in county funding. Budgeted Division expenditures in 2014 were \$32 million. Parks and Recreation has approximately 138 full-time-equivalent (FTE) County employees.

In 2014, multiple recreation center cash handling audits revealed internal control weaknesses such as inadequate segregation of duties and weak point-of-sale system user access controls at some facilities. We also noted that adjusting transactions, such as voids, credits, and discounts were not always done in accordance with **Countywide** or Parks and Recreation’s policies.

In 2014, audits at various recreation centers revealed point of sale system internal control weaknesses.

Control weaknesses were also identified regarding some accounting and revenue reporting functions. The scope of this audit was to examine Parks and Recreation’s point-of-sale system as a whole, and address some of those internal control weaknesses on a system level throughout the County.

Parks and Recreation has also been the subject of three separate theft investigations over the past three years. In 2012, an employee admitted to stealing County funds. In 2014, a former bookkeeper was investigated for fraud and theft of public funds; and in early 2015, another Parks and Recreation employee at one of the recreation centers admitted to stealing County funds from his cash register drawer after being confronted by the facility manager.

AUDIT SCOPE AND METHODOLOGY

Due to internal control weaknesses identified previously and several incidents of employee theft, we conducted an audit of the Parks and Recreation point-of-sale system and cash handling processes and make recommendations to improve the efficiency operations, enhance accountability, and better safeguard County assets.

Audit Objectives

The overall objectives of the audit were to:

1. Determine the effectiveness of user access controls over system administration for the Parks and Recreation point-of-sale system, and to;
2. Determine if internal controls were established to reduce the risk of financial reporting errors and provide accurate reporting of revenue.

To accomplish our objectives, we:

- Reviewed cashiering and depositing roles to determine if proper segregation of duties had been established in accordance with **Countywide Policies #1062, “Management of Public Funds,”** and **#1400-1, “Information Technology Security: Acceptable Use Policy.”**
- Analyzed adjusting transactions, such as voids, discounts, deleted transactions etc., performed at County recreation centers to determine if those transactions were in compliance with **Countywide Policies, #1062, “Management of Public Funds,” #1205, “Fee Refunds,” #1210, “Refund of Payments Made Through Debit or Credit Cards,”** and Parks and Recreation policies, **“Policies and Procedures for Cash Handling,”** and **“Establishing Fees for Programs and Passes.”**
- Reviewed daily cash balancing and depositing procedures to determine if revenue reported in the POS system was accurate and matched revenue reported in the County’s financial system.

In addition, we performed the following analyses:

- We requested Parks and Recreation guidelines for appropriate user access rights, based on job duties, from both Division administration and individual recreation centers. We compared center guidelines and existing user access rights to guidelines provided by Parks and Recreation administration.
- Using data analytics software, we extracted transaction data and deposit information for all of 2014 from the Parks and Recreation point-of-sale system. We determined which centers had the most adjusting transactions (voids, discounts, and credits) and then visited those centers, interviewed staff, and reviewed a judgmental sample of deposit documentation.
- Finally, we reviewed the deposit reconciliation process and compared daily collections revenue, per the point-of-sale application, to revenue reported in the County’s financial system and verified that those amounts were deposited in the bank.

The scope of the audit included transactions that occurred between January 1, 2014, and December 31, 2014. The audit included all recreation centers operated by Parks and Recreation, but excluded Wheeler Farm, the Equestrian Park, and county operated golf courses.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Finding 1

Risk Ranking **HIGH**

The System Administrator account user ID and password were shared between recreation centers throughout the County.

Recommendations

- Parks and Recreation should assign a unique login and password to each point-of-sale system user.
- Parks and Recreation should, to the extent possible within the current point-of-sale system, centralize all system administrator functions for better system security.

Finding 2

Risk Ranking **HIGH**

Parks and Recreation did not have written standards or policies for employee role based user account management in the POS system.

Recommendations

- Parks and Recreation should implement an employee role-based user access control system for recreation center employees in the point-of-sale system.
- The user access control system should include user profiles based on job titles and essential job functions that would limit employee access to only those specific user settings required for each user role, or essential job functions, within the system.

Finding 3

Risk Ranking **MEDIUM**

Employee user accounts were not always assigned with the least amount of system privileges for each employee's essential job duties or functions.

Recommendation

The user access control system should be based on the *principle of least privilege* and limit employee access to only those specific user settings required for each user role or only the employee's essential job functions, within the system.

Finding 4

Risk Ranking **LOW**

Inactive POS system user accounts were not periodically identified and removed from the system.

Recommendation

Parks and Recreation should deactivate and remove user accounts of terminated employees immediately, and periodically review all POS system user accounts to ensure that only current employees have active user accounts.

Finding 5

Risk Ranking **MEDIUM**

Parks and Recreation did not have written standards or policies regarding reviewing and monitoring recreation center POS system administration functions.

Recommendation

Parks and Recreation should establish written standards and policies for POS system database administration, including implementing standards for granting user access rights and maintaining POS system database information.

Finding 6

Risk Ranking HIGH

Inadequate segregation of duties between employees who performed cashiering functions and prepared daily deposits created the opportunity for fraud and misuse of public funds.

Recommendation

- Parks and Recreation should clearly define a strong system of segregation of duties between recreation center employees who perform the duties of a cashier and those employees who review and prepare the daily deposits.
- Parks and Recreation should implement a system of employee role based user access controls that ensures proper segregation of duties between those employees who perform cashiering functions, and those that review and prepare the daily deposits.

Finding 7

Risk Ranking HIGH

Internal control weaknesses within the POS system with regard to adjusting transactions created an opportunity for fraud and misuse of public funds.

Recommendation

Parks and Recreation should update its cash handling policies and procedures to reflect the current state of the POS system currently in use, and clearly define policies and procedures for employees to follow regarding adjusting transactions.

Finding 8

Risk Ranking LOW

Revenue recorded in the POS system did not reconcile to amounts reported in the County's financial system or bank statements.

Recommendation

Parks and Recreation should implement policies and procedures to ensure that all EFT revenue is accurately recorded in the POS system at each recreation center.

Finding 9

Risk Ranking LOW

The manual revenue reporting process was inefficient and a duplication of Parks and Recreation staff effort.

Recommendation

Parks and Recreation should automate the monthly revenue reporting process by generating revenue reports directly from the POS system.

Finding 10

Risk Ranking LOW

The monthly bank deposit reconciliation process for each recreation center was done manually, which created a greater risk for accounting errors.

Recommendation

Parks and Recreation should discontinue the manual monthly bank reconciliation process, and implement a more efficient system using basic financial management software.

SECTION 1: POINT OF SALE SYSTEM USER ACCESS CONTROLS

One of the most important internal controls for any type of software application is establishing user access controls. The most commonly used user access controls include user accounts, passwords and user names, login and resource access rights, and the establishment of certain privileged system administrator accounts.

User access controls are designed to prevent unauthorized individuals from accessing systems and data and to ensure user access is consistent with job duties and management objectives. In a point-of-sale system, user access controls help to prevent unauthorized access to personal identifiers, support and enforce cash handling policies, and help to ensure that receipts are reported accurately and completely.

Insufficient written standards and policies contributed to an environment of poor user access controls.

During our audit, we found that the decentralized administration methodology of Parks and Recreation's point-of-sale system and a lack of sufficient written standards and policies contributed to poor user access controls throughout the Division. As a result, when system internal controls are inadequate, the likelihood that errors, irregularities, or the possibility of a data breach are increased.

Finding 1: The System Administrator account user ID and password were shared between recreation centers throughout the County.

System administrator access provides administrators with the ability to modify other user accounts and system settings. The system administrator account for Parks and Recreation's point-of-sale system was the only user account enabled to grant new user access and maintain user access rights. Because the system was administered at the recreation center level, the system administrator account login and password were provided to one employee at each facility. Facility managers were typically entrusted with the system administrator account login information.

Ideally, each facility manager should be assigned a unique user login and password to perform system administrator functions. In addition, employees with administrative access rights should not be involved with entering or modifying point-of-sale transactions, or accepting payments.

Because the system administrator account information was shared, any user with the user ID and password could alter transactions and sales records.

We found that the system administrator account could be used to make system and configuration changes, modify user accounts, access and modify patron records, and perform other functions within the application. Because the administrator account login information was shared between all of the facilities using the system, changes made to the system could not be traced to one individual.

Furthermore, according to Parks and Recreation management, the password for the system administrator account had not been changed since 2012. Therefore, it is possible that former Parks and Recreation employees could access and make changes within the application without being identified. While we could not be certain that the administrator account was used inappropriately, the opportunity existed for users to alter transactions and records without detection.

Countywide Policy #1400-1, "Information Technology Security: Acceptable Use Policy," Section 3.1.2, Access and Control, states:

"County agency management is responsible for granting users' access to IT resources and systems, which is limited to that which is required to do their work, and for revoking user access in a timely manner."

Payment Card Industry –Data Security Standards (PCI-DSS) apply to all organizations that store, process, or transmit credit cardholder data. Requirement number 8 states that organizations must:

"Assign a unique ID to each person with computer access."

Requirement 10.1 requires organizations to:

"Establish a process for linking all access to system components to each individual user-especially access done with administrative privileges."

To perform their job responsibilities, system administrators must be given access to system functions and data that the normal user should not be authorized to have. Due to the sensitive nature of the system administrator position, Parks and Recreation management should have proper controls in place to ensure only appropriate employees have administrator access rights and privileges.

Furthermore, system administrator user accounts should be reviewed periodically to ensure that only employees with the proper authority are able to use any type of administrator account. System administrator accounts should have strong passwords that are not easy to guess and passwords should be changed often. Parks and Recreation administration should monitor the point-of-sale system at the recreation centers periodically for questionable activities.

Finding 2: Parks and Recreation did not have written standards or policies for employee role based user account management in the POS system.

Role-based user account management allows user settings to be pre-defined for each job function. As new users are added, or as user job functions change, administrators select the role within the system that best matches the user's job functions.

The point-of-sale application used by Parks and Recreation allowed the system administrator to select what functions users had the ability to perform on a case-by-case basis. Each user was granted a combination of 29 functions, as seen in Figure 1, below.

Figure 1: Parks and Recreation's POS System Available User Access Settings

Parks and Recreation POS System Available User Access Settings	
Void Sale	Center Financial Reports
Delete Sale/Reservation	End of Day Reports
Refund Cash	Till Reconciliation
Create Activity Sale	Edit Till During Reconciliation
Create Reservation	View Credit Card

	Information
Create Rentals	Activity Definitions
Approve Reservation	List Management
Site Administration	Cash Register Management
View Member Financial	Activity Report
Adjust Member Financial	Website Customization
Membership Report	Facility Definition
Add Membership	Application Updates
Edit Membership	No Login is Allowed
Delete Membership/Recurring	Add/Edit Users
Add/Edit Recurring Charges	

Access to the point-of-sale system functions should be based on user roles established by the user's essential job duties and functions.

The lack of centralized policies and procedures for granting user access settings in the POS system creates an environment where users could be allowed access to certain system functions that should be assigned to another employee for proper separation of duties. In addition, granting user access on a case-by-case basis creates inconsistencies from one recreation center to another as different users are granted access for functions that may or may not be part of their job duties.

We requested that each recreation center submit user access settings, by job title, for its facility. Because there were no formal written policies or standards for administration of the Parks and Recreation point-of-sale system, user access settings varied from one recreation center to the next. For example, user access rights for bookkeepers ranged from allowing all 29 access settings to allowing only 13 of the settings. User access rights for cashiers varied from allowing 23 of the settings to allowing only 7 settings.

We found that user access rights varied at each recreation center by each individual user, regardless of their job duties.

Effective user access controls enable organizations to have a more secure IT environment. Because the point-of-sale system is the primary means to conduct business transactions at the recreation centers and recreation centers have a variety of job functions for each employee role, it is important to control who has access to the various functions within the system to ensure proper separation of duties.

However, as mentioned previously, ***Countywide Policy #1400-1, "Information Technology Security: Acceptable Use Policy,"*** requires that user access be restricted to that which is required to perform the [essential] job functions.

In the absence of role-based user account management, the potential for granting access in excess of what is required for an employee to perform his job is more likely to occur. Additionally, the lack of uniform role-based user access controls throughout the recreation centers creates a risk that unauthorized users could have access to system functions that they should not have access to.

Finding 3: Employee user accounts were not always assigned with the least amount of system privileges for each employee’s essential job duties or functions.

The *principle of least privilege* is an important concept in computer and IT system security. The least privilege principle promotes granting only minimal user profile privileges in a system based on each user’s job functions. Users should have the least amount of access to system functions necessary to perform their duties. This helps reduce the risk that a user who is not authorized to perform certain functions is able to gain access to those functions.

We compared the access rights granted to employees by the facility managers at each recreation center with the appropriate access rights for users based on their job functions. We found in our comparison that between 40 and 75 percent of the time, the facility managers at the recreation centers granted more access rights to employees than what was absolutely necessary to perform their job functions.

We also compared a sample of the user access settings granted to each user with Parks and Recreation administration’s criteria and found that 346 out of 422 user accounts had been granted more access rights than on the list from administration. Additionally, 58 percent of all point-of-sale user accounts that we examined, had the ability to perform cash refunds, even though Parks and Recreation cash handling policy prohibits the practice. Some of these user accounts belonged to employees who no

Weak controls over user accounts could allow unauthorized individuals to gain access to accounts and modify transaction information.

longer worked for Parks and Recreation, but were still active accounts in the POS system.

Payment Card Industry, Data Security Standards (PCI-DSS), require that all vendors who accept credit cards as a form of payment limit access to system components to only those individuals whose job functions requires such access.

Weak controls over user account privileges increases Parks and Recreation’s vulnerability to unauthorized access and fraudulent activities within the point-of-sale system. When users have more access than their job functions require, employees without the proper authority or oversight could modify system information and perform transactions without being detected. An example would be a cashier giving a recreation center patron a cash refund, because he has the user access to do so, even though the employee does not have the authority to give refunds without the facility manager’s approval.

Finding 4: Inactive POS system user accounts were not periodically identified and removed from the system.

We compared a list of all point-of-sale system user accounts to a list of current County employees in the County’s payroll system. We identified 542 active user accounts in Parks and Recreation’s point-of-sale system that were assigned to employees that had been terminated or left County employment. We reviewed this list with Parks and Recreation administration and they confirmed that the user accounts should have been deactivated or revoked when the employees were terminated or left Parks and Recreation.

Countywide Policy 1400-1, "Information Technology Security: Acceptable Use Policy," Section 3.1.2, Access and Control, states:

"County agency management is responsible for granting users' access to IT resources and systems ... and for revoking user access in a timely manner."

It could be possible for an employee who no longer works for Parks and Recreation to gain access to the point-of-sale system and make system changes or override internal controls designed to prevent theft or misappropriation of County assets. An employee's user account should be deactivated or removed when that employee no longer works for the County to prevent an unauthorized individual from gaining unauthorized access to the system.

The existence of active user accounts for those who no longer work for Parks and Recreation poses an unnecessary security risk for unauthorized access to the POS system. When user access rights are not revoked in a timely manner, there is a greater risk of loss, system security vulnerability, and possible concealment of fraudulent activities.

Finding 5: Parks and Recreation did not have written standards or policies regarding reviewing and monitoring recreation center POS system administration functions.

While we did find that there were some general guidelines for establishing discount amounts and codes, Parks and Recreation did not have any formal written standards or policies for maintaining discount codes, other lists, and database tables and in the POS system.

In addition, we determined that Parks and Recreation did not review or monitor POS system database tables or system settings to ensure they were appropriate and consistent between the recreation centers. Consequently, we found that user account settings, discount codes, and other tables varied significantly from one recreation center to another.

Recommendations

1. Parks and Recreation should assign a unique login and password to each point-of-sale system user.
2. Parks and Recreation should, to the extent possible within the current point-of-sale system, centralize all system administrator functions for better system security.
3. Parks and Recreation should implement an employee role-based user access control system for recreation center employees in the point-of-sale system.
 - a. The user access control system include user profiles based on job titles and essential job functions that would limit employee access to only those specific user settings required for each user role, or essential job functions, within the system.
 - b. The user access control system should be based on the principle of least privilege and limit employee access to only those specific user settings required for each user role or only the employee's essential job functions, within the system.

4. Parks and Recreation should deactivate and remove user accounts of terminated employees immediately, and periodically review all POS system user accounts to ensure that only current employees have active user accounts.
5. Parks and Recreation should establish written standards and policies for POS system database administration, including implementing standards for granting user access rights and maintaining POS system database information.

SECTION 2: ADJUSTING TRANSACTIONS AND DAILY DEPOSITING PROCEDURES

Segregation of duties is an important internal control that when functioning properly, helps to mitigate the risk of accounting errors and even fraud. For example, by properly separating the cashiering function (collection) from the bookkeeping function (recording), no single employee has complete control over revenue collection, custody of funds, and reconciliation of amounts collected.

During our audit, we noted that some Parks and Recreation employees, who prepared the daily deposits, also worked as cashiers and had the ability to make adjusting transactions, such as sales discounts, voids, and refunds, in the POS system. Inadequate segregation of duties within an organization greatly increases the risk of accounting errors, and the risk of fraud, because a proper system of checks and balances is not in place.

Finding 6: Inadequate segregation of duties between employees who performed cashiering functions and prepared daily deposits created the opportunity for fraud and misuse of public funds.

We extracted a record of all deposit batches from 2014 in the POS system. We also obtained a listing of all of the employees that prepared each of the daily deposits and their user account IDs. Then we compared the list of deposit preparer user IDs to a list of employees that had accepted payments as a cashier in those deposits.

We discovered that 60% of all deposits included payments that were collected by the same employee who prepared the deposit. We also determined that the total amount of payments collected by the deposit preparers was \$978,738, or approximately 5% of all cash, check, and credit card collections for all recreation centers during 2014. We noted that other transactions entered by the deposit preparers included transaction adjustments, such as discounts, credits, and voids.

In addition, we found 145 instances where deposit preparers entered sales transactions into the POS system, and then later voided their own transactions. We investigated an incident of employee theft at the Holladay Lions Fitness and Recreation Center in 2015, where the perpetrator used this same tactic to conceal theft of County funds.

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

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

A lack of separation of duties was noted during audits performed during 2014 at some Parks and Recreation centers. Bookkeepers that prepared the deposits often performed cashiering duties during busy periods. However, failure to separate cashiering and depositing duties increases the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping.

Finding 7: Internal control weaknesses within the POS system with regard to adjusting transactions created an opportunity for fraud and misuse of public funds.

We analyzed adjusting transactions, such as voids, customer credits, sales discounts, and refunds at each recreation center for all of 2014. The total dollar amount of these adjusting transactions was \$657,288, or approximately 3.4% of total revenue for 2014. We also analyzed zero-dollar transactions (or no-sale transactions) and “abandoned” transactions. We noted that the total percentage of adjusting transactions varied from one recreation center to another.

For example, taken on average for all of the recreation centers combined, customer credits averaged 1.25% of total collections. However, at one recreation center customer credits accounted for 5.4% of total collections at that recreation center facility. Again, taken on average, sales discounts accounted for 4.9% of total collections for all of the recreation centers combined. However, at one recreation center, sales discounts accounted for 17.4% of all transactions.

Parks and Recreation Division administration does not review adjusting transactions in the POS system entered by employees at each recreation center. This oversight is left up to the facility manager at each recreation center.

We found that Parks and Recreation did not monitor the frequency or number of adjusting transactions made at each recreation center.

Overall, the Copperview, Central City, Holladay Lions, and Redwood recreation centers ranked the highest in the number of adjusting transactions, compared with their total revenue and number of transactions during 2014.

We requested copies of the Parks and Recreation Division’s current cash handling policies. The policies include a section on the proper handling of voided transactions. However, the copy of the policies we were provided did not have a date, nor did it address all of the adjusting transaction types used currently within the POS system, such as “deleted transactions,” zero-dollar (no-sale) transactions, or how to properly apply sales discounts and issue customer credits or refunds. In addition, there was no guidance on the procedures for a proper review of or supervisor’s approval of these transactions. We confirmed with Parks and Recreation staff that the cash handling policies had not been updated for several years.

Recommendations

1. Parks and Recreation should clearly define a strong system of segregation of duties between recreation center employees who perform the duties of a cashier and those employees who review and prepare daily deposits.
2. Parks and Recreation should implement a system of employee role based user access controls that ensures proper segregation of duties between those employees who perform cashiering functions, and those that review and prepare the daily deposits.
3. Parks and Recreation should update its cash handling policies and procedures to reflect the current state of the POS system currently in use, and clearly define policies and procedures for employees to follow regarding adjusting transactions.

SECTION 3: RECORDING REVENUE AND BANK DEPOSIT RECONCILIATION

Internal controls should be implemented in every POS system to ensure the accuracy of daily collections and deposits and revenue recorded. Reconciling collections with deposit amounts, and then with the recorded amounts in the County's financial system ensures that Parks and Recreation's revenue is fairly and accurately reported in the County's financial statements.

During our audit, we noted that revenue collections reported in the County's financial system and bank deposits, exceeded the amount of revenue recorded in the POS system. We also found an inefficient, manual revenue reporting and bank reconciliation process that exacerbated the likelihood of accounting errors.

Finding 8: Revenue recorded in the POS system did not reconcile to amounts reported in the County's financial system or bank statements.

We totaled collections of cash, check, and payment cards recorded in the POS system, by each recreation center and by month. We compared those amounts to bank deposits and found a total variance of \$764,141. Total recreation center revenues recorded in the POS system were much lower than what was deposited.

Over 97% of the variance was due to automatic payments of monthly customer membership fees that were not recorded properly in the POS system. Some recreation center customers have monthly membership fees automatically debited from their bank accounts. Twelve of the recreation centers receive electronic funds transfers (EFTs) on or around the 15th of each month. However, only three of the recreation centers enter the EFTs revenue received into the POS system. The remaining recreation centers do not. We found that during 2014, the POS system database showed a total of \$112,412 in EFTs entered into the system. However, per the bank statements, the total amount of EFTs received was \$859,043.

Some recreation centers record EFT payments received correctly in the POS system, but most do not.

We also compared a sample of revenue entries in the County's financial system to amounts recorded in the POS system. The sample consisted of 257 transactions totaling \$6 million, out of a population of 766 transactions totaling \$18 million. In our sample we calculated a variance of \$239,374. Again, the point-of-sale system was lower than the financial system.

We selected nine of the most significant variances for further review. Six of the nine were the result of EFT payments not being recorded in the point-of-sale system as well as smaller variations in daily deposit amounts. The remaining three variations were due to transactions that were not recorded between centers, such as revenue collected at one center for events or programs held at another center. Adjustments were made to transfer the revenue in the County's financial system, but changes were not made in the point-of-sale application.

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

“Effective internal controls provide reasonable assurance that daily transactions are executed in accordance with applicable statutes, ordinances and policies, and errors, irregularities, and omissions are effectively minimized or detected.”

Failure to enter all payments into the point-of-sale system increases the likelihood that patrons with insufficient funds can continue using recreation center facilities. In addition, when revenue is not entered into the POS system, there is an increased risk that incorrect financial information could negatively affect stakeholder decisions. Errors, irregularities, and omissions may not be effectively minimized or detected.

Finding 9: The manual revenue reporting process was inefficient and a duplication of Parks and Recreation staff effort.

As part of the revenue reporting process, the deposit preparer at each recreation center entered deposit revenue by general ledger account (i.e., program or activity) on a spreadsheet called the deposit transmittal. A copy of the transmittal, deposit slip, and a till report generated from the point of sale system, were sent to an accountant at Parks and Recreation administration.

An employee at Parks and Recreation administration inputs the information on the deposit transmittal into another spreadsheet called the cash receipts report. One spreadsheet was maintained for each recreation center by month and then became the basis for creating the journal entries posted to the County’s general ledger.

We determined that the required general ledger revenue amounts could be obtained from an existing point-of-sale system generated report, and therefore did not need to be manually entered into separate spreadsheets. By using existing point-of-sale reports, staff time entering and maintaining the information on spreadsheets can be better utilized. Furthermore, using the POS system generated reports would reduce the risk of human error better safeguard against unintentional accounting errors.

Finding 10: The monthly bank deposit reconciliation process for each recreation center was done manually, which created a greater risk for accounting errors.

Each month, when the bank statements were available, the accountant printed each center’s cash receipt report and the detailed bank statement. Colored highlighters and letters were used to match deposits and other amounts shown on the bank statement with amounts on the cash receipt report. For example, online charges were highlighted orange, in-transit items were highlighted blue, etc. Letters were used to match deposits on the cash receipt report to amounts on the bank statement. The process developed by the accountant resulted in a fully reconciled account, despite the large volume of transactions and locations involved. However, it also required a significant amount of time and effort.

The reconciliation was recorded on a third spreadsheet called the reconciliation report. This report detailed the gross revenue, in-transit items, deposit errors, returned checks, and other fees (credit and debit memos). Errors and other non-reconciling items were researched by the accountant and resolved with each center.

Most small business accounting software systems include bank statement reconciliation features. Data could be extracted from the point-of-sale system and obtained electronically from the bank to facilitate

an automated reconciliation. Automation would free staff time for other duties and would make errors and omissions less likely to occur.

Recommendations

1. Parks and Recreation should implement policies and procedures to ensure that all EFT revenue is accurately recorded in the POS system at each recreation center.
2. Parks and Recreation should automate the monthly revenue reporting process by generating revenue reports directly from the POS system.
3. Parks and Recreation should discontinue the manual monthly bank reconciliation process, and implement a more efficient system using basic financial management software.

THIS PAGE LEFT BLANK INTENTIONALLY

CONCLUSION

Audit Objective 1

Determine the effectiveness of user access controls over system administration for the Parks and Recreation point-of-sale system

Conclusion

User access controls in the Parks and Recreation Division's POS system were inadequate and created an opportunity for fraud.

Recommendations

1. Parks and Recreation should assign a unique login and password to each point-of-sale system user.
2. Parks and Recreation should, to the extent possible within the current point-of-sale system, centralize all system administrator functions for better system security.
3. Parks and Recreation should implement an employee role-based user access control system for recreation center employees in the point-of-sale system.
 - a. The user access control system include user profiles based on job titles and essential job functions that would limit employee access to only those specific user settings required for each user role, or essential job functions, within the system.
 - b. The user access control system should be based on the principle of least privilege and limit employee access to only those specific user settings required for each user role or only the employee's essential job functions, within the system.
4. Parks and Recreation should deactivate and remove user accounts of terminated employees immediately, and periodically review all POS system user accounts to ensure that only current employees have active user accounts.
5. Parks and Recreation should establish written standards and policies for POS system database administration, including implementing standards for granting user access rights and maintaining POS system database information.

Audit Objective 2

Determine if internal controls were established to reduce the risk of financial reporting errors and provide accurate reporting of revenue.

Conclusions

- Adjusting transactions and daily deposit procedures did not have proper segregation of duties.
- Manual revenue recording and bank reconciliation processes were inefficient and increased the likelihood of accounting errors.

Recommendations

6. Parks and Recreation should clearly define a strong system of segregation of duties between recreation center employees who perform the duties of a cashier and those employees who review and prepare daily deposits.
7. Parks and Recreation should implement a system of employee role based user access controls that ensures proper segregation of duties between those employees who perform cashiering functions, and those that review and prepare the daily deposits.
8. Parks and Recreation should update its cash handling policies and procedures to reflect the current state of the POS system currently in use, and clearly define policies and procedures for employees to follow regarding adjusting transactions.
9. Parks and Recreation should implement policies and procedures to ensure that all EFT revenue is accurately recorded in the POS system at each recreation center.
10. Parks and Recreation should automate the monthly revenue reporting process by generating revenue reports directly from the POS system.
11. Parks and Recreation should discontinue the manual monthly bank reconciliation process, and implement a more efficient system using basic financial management software.