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**Office of the
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**An Audit of Key Controls at the
Northwest Recreation Center**

We recently completed an audit of key controls at Salt Lake County's Northwest Recreation Center ("Northwest.") The purpose of the audit was to examine financial records and business processes at Northwest to determine if critical internal controls related to cash handling, capital and controlled asset management, and other public funds were properly implemented and functioning as intended to help reduce the risk of loss, theft, or misuse of county assets.

Our work was designed to provide reasonable, but not absolute assurance that the system of internal controls was adequate, records current, and daily transactions valid. Since our audit included only a sample of items from the period examined, there is a risk that we would not have discovered problems related to assets or transactions not specifically selected for review.

The criteria used for the audit included Parks and Recreation's own internal policies and procedures, as well as countywide policies such as Countywide Policy 1062, "*Management of Public Funds*," Countywide Policy 1125, "*Safeguarding Property/Assets*," Countywide Policy 1203, "*Petty Cash and Other Imprest Funds*," and Countywide Policy 7035, "*Purchasing Card Authorization and Use*."

Although this report primarily focuses on issues, exceptions, findings and recommendations for improvement, it is not meant to imply that we did not observe various strengths and accomplishments at Northwest. We appreciate the time and effort the staff at Northwest provided throughout this audit.

Scope and Methodology

Our audit work covered the period from December 1, 2016, through November 30, 2017. The audit included a formal examination of financial records related to the following operational areas:

- Petty Cash and Other Imprest Funds
- Cash Receipts and Daily Deposits
- Capital and Controlled Assets



- Purchasing Card Expenditures
- Receivables

In addition to examining financial records, we observed business practices and procedures, and tested internal controls to provide assurance that financial transactions were recorded and reported accurately, and that county assets were properly safeguarded against theft, loss, misuse, or abuse. We examined daily cash deposits and monthly reconciliations, interviewed Northwest employees, conducted a physical inventory of a sample of both capital (“fixed”) and controlled (“expensed”) assets, performed a count of petty cash and change funds, examined purchasing card (“p-card”) transactions, daily cash receipts, and receivables.

Audit Results

1 – Petty Cash and Other Imprest Funds

Audit Objectives:

- Determine if petty cash and change funds are maintained at their authorized amounts.
- Determine if the funds are properly safeguarded against loss, theft, or misuse.
- Determine if petty cash purchases are appropriate (for the intended use of the funds) and comply with Countywide Policy.

Petty cash funds are established to allow County agencies to purchase small-cost items that are of such a nature that the normal purchase order method is not cost effective. Countywide policy currently limits disbursements from petty cash to no more than \$200 per transaction. Countywide Policy 1203, *“Petty Cash and Other Imprest Funds,”* outlines the proper use and management of petty cash funds for all County agencies. County agencies may establish their own internal policies and procedures regarding the disbursement petty cash funds, so long as they do not contradict countywide policies.

Northwest has a petty cash fund totaling \$500. We performed a surprise cash count of the petty cash fund and verified that it was maintained at its authorized amount. We found that the petty cash fund was adequately secured when not in use, and that only Northwest’s designated Petty Cash Fund Custodian had access to the fund when needed. We reviewed petty cash disbursements for all of 2017 and verified that purchases were properly signed-off and authorized by management, appeared to have a clear county business purpose, and that each petty cash disbursement did not exceed the \$200 single transaction limit. We also verified that Northwest did not pay sales tax on purchase vouchers submitted for petty cash reimbursement, and that the petty cash disbursements complied with the other provisions of Countywide Policy 1203.

The purpose of a change fund is to provide smaller denominations of change when processing cash sales transactions at County facilities. Northwest has an authorized change fund amount of \$375, which is divided between the recreation center and the child daycare facility. We conducted a surprise cash count of the change fund and verified that it was intact and maintained at the authorized balance. We also found that the change fund is properly safeguarded against loss or theft, and that the funds are secured in a combination safe when they are not in use.

We noted no significant findings in the area of petty cash and other imprest funds.

2 – Cash Receipts and Daily Deposits

Audit Objectives:

- Determine if cash handling and daily depositing procedures comply with Countywide Policy.
- Determine if cash receipts and daily deposits are properly safeguarded against theft, loss, or misuse prior to being deposited at the bank.
- Determine if there are adequate segregation of duties in both the cash receipting and depositing business processes.
- Provide assurance that cash receipts are recorded and reported accurately, and that management provides proper fiscal oversight over the cash receipts accounting process.

Northwest accepts cash, check, and credit card payments for gym memberships, entrance fees, fitness classes, and child care. Countywide Policy 1062, *“Management of Public Funds,”* outlines the proper procedures for receipting, recording, and depositing public funds, and defines the functions and responsibilities of County managers to establish and monitor internal controls over these procedures.

During our audit we examined 30 individual daily deposits that included collections from both the recreation center and the child daycare facility, to verify that they were accurately recorded and accounted for. We confirmed that the daily deposits balanced to the daily collections recorded in the point-of-sale system, and that the daily deposit totals matched the deposit amounts that were listed on the bank statements.

We also examined voided receipts to verify they were documented properly and reviewed by the cashier’s supervisor. We reviewed cash over and short logs during the audit period and found that cash overages and shortages were recorded and that a supervisor had signed the logs as evidence of management’s review. We also calculated the number of days between the receipt date and the date that funds were deposited at the bank, to verify they were deposited within three days of receipt, as required by County policy and Utah state law.

We found that there was adequate separation of duties to ensure that deposits were recorded accurately and to protect County funds against the risk of theft, loss, or misappropriation. Cashiers open and close the tills each day by counting and verifying the change fund on hand. They collect cash, checks, and credit card payments and post them to the point-of-sale system. A supervisor reviews the daily transactions and prepares the daily deposit, which is then sealed in a tamper-proof deposit bag. A staff member takes daily deposits to the bank and returns with a validated deposit slip that is filed with the deposit documentation packet. At the end of each month, a Parks and Recreation accountant in the administration office reconciles the daily deposits to the bank statement.

We noted no significant findings in the area of cash receipting and daily depositing.

3 – Capital and Controlled Assets

Audit Objectives:

- Determine if capital and controlled assets were identified accurately, physically present, and accounted for properly.
- Determine if capital and controlled assets were properly safeguarded against loss, theft, or misuse.

- Determine if capital and controlled asset management procedures complied with Parks and Recreation’s own internal policies and procedures, and Countywide Policy.

Our audit included an examination of Northwest’s capital and controlled asset management practices and procedures to determine whether capital and controlled assets were accounted for, and properly safeguarded against the risk of loss, theft, or misuse. *Countywide Policy 1125, “Safeguarding Property/Assets,”* establishes the policies and procedures for the proper management of County capital (or “fixed”) and controlled (or “expensed”) assets, including procedures to account for, protect, and dispose of those county-owned assets.

According to Countywide Policy 1125, fixed assets are defined as:

“Individual items having an estimated useful life greater than one year and a cost equal to or greater than the existing capitalization rate...”

We obtained a copy of the Northwest’s fixed and controlled asset inventory lists indicating that the most recent inventory was conducted on January 16, 2018 by the Property Manager. Northwest had a total of 13 assets classified as fixed assets on their fixed asset list. We selected eight (8) of those fixed assets from the fixed asset list and verified that they were on-site, and that the asset ID tags and descriptions were accurate. We then selected three (3) items at the recreation center that in our opinion would meet the definition of a capital asset and traced each of those items back to the fixed asset list. We found that one fixed asset, an elliptical machine, was incorrectly described as a treadmill on Northwest’s capital asset list.

When fixed assets are disposed of, transferred out, or removed from a County facility, the property manager at the facility is required to complete a Form PM-2, *“Salt Lake County Personal Property Transfer/Disposal/Internal Sale Form,”* to document the disposal or transfer. This form describes the fixed asset that is being removed or transferred, its condition, and how it was disposed of, if applicable. Each Form PM-2 should be reviewed and authorized by management. We examined nine Form PM-2s for fixed assets that had been transferred or disposed of on the fixed asset list. We found that the forms were completed properly and maintained on file by the designated Property Manager at Northwest.

Countywide Policy 1125, defines controlled (or “expensed”) assets as:

“[Items of personal property] having a cost of \$100 or greater, but less than the current capitalization rate, and are susceptible to conversion to personal use, thereby necessitating special provisions for safeguarding.”

Northwest had a total of 51 items listed on the controlled asset inventory list. We selected a sample of 30 items to review. We were able to verify that all 30 of those items were located on-site. We also located ten items at the facility that we determined fit the definition of a controlled asset and verified that they were recorded on the controlled asset list, and that the item descriptions were accurate. We found that a computer that had been replaced by Parks and Recreation information technology (“IT”) personnel had not been accounted for on Northwest’s controlled asset list.

Our audit findings and recommendations in the area of capital and controlled assets were as follows:

Finding 3.1 – A capital asset was described incorrectly on the capital asset inventory list.

We obtained a copy of Northwest's capital asset list, dated January 9, 2018, which listed 13 capital assets. We selected eight (8) capital (or "fixed") assets from the list, to verify that they could be located on-site, and that asset descriptions and ID tags were accurate. Out of the eight (8) fixed assets, we could not locate a treadmill on the list, with an original cost of over \$5,000.

Countywide Policy 1125, "Safeguarding Property / Assets," Section 2.2 and 2.2.1, state:

"Property Manager's Duties - duties may be appropriately delegated to a subordinate, however consistent with basic management principles, Property Managers and County Administrators remain ultimately responsible for management of County property. Property Managers assigned by their Administrators are responsible for the following: ... Accounting for all fixed assets within the organization's operational and/or physical custody as listed on the LGFS0801 Salt Lake County Fixed Asset Inventory by Organization report."

The Parks and Recreation Fiscal Manager stated that an administrative error occurred that incorrectly described the capital asset as a treadmill when it should have been described as an elliptical machine. In addition, Mayor's Finance may have incorrectly attributed the treadmill to Northwest when it could be located at another site. When an asset is not accurately described on the capital asset list, there is an increased risk that the asset could be lost or stolen without detection.

Recommendation 3.1:

We recommend that Northwest management report the treadmill to Mayor's Finance and request them to correct the description as an elliptical machine.

Finding 3.2 – A controlled asset was not listed on the controlled asset inventory list.

We obtained a copy of Northwest's controlled asset list, dated January 16, 2018, which listed 51 controlled assets. We selected 10 controlled assets to verify they were on the controlled asset list. A computer in a recreation program coordinator's office was not included on the controlled asset list and did not have an inventory tag.

Countywide Policy 1125, "Safeguarding Property / Assets," Section 2.2.8 states:

"Coordinate with the organization's Purchasing Clerk to ensure that all newly acquired property is identified and accountability is appropriately established, and fixed assets are tagged and capitalized."

The Facility Manager stated that he was unaware that Parks and Recreation IT staff had replaced the computer. When an asset is not included on the controlled asset list, there is an increased risk that the asset could be lost or stolen without detection.

Recommendation 3.2:

We recommend that Northwest management research acquisition information and add the computer to their controlled asset inventory list.

4 – Purchasing Card Expenditures

Audit Objectives:

- Determine if purchasing card procedures complied with Countywide Policy.
- Determine if purchasing cards were properly safeguarded.

Northwest uses eight County-issued purchasing cards (P-cards) and does not have any proprietary cards, such as those issued by the Home Depot or other large box stores. We reviewed the P-card transactions according to Countywide Policy 7035, *“Purchasing Cards Authorization and Use.”* This included verifying that the P-cardholders attended County-mandated P-card training, kept their assigned P-cards secured, and maintained original receipts and documentation.

We selected a sample of 45 P-card transactions for the period December 1, 2016 through November 30, 2017. We examined the P-card purchases in the sample for legitimate business purposes, transactions within authorized amounts, management review, agreement of receipts to bank statements, and avoidance of sales tax.

Our audit findings and recommendations in the area of purchasing card use were as follows:

Finding 4.1 – A purchasing cardholder did not have copies of purchasing card documentation on file.

During our audit we examined P-card documentation on file with each of the P-cardholders at Northwest. However, one employee did not have copies of the P-card documentation for us to review. The documentation was sent to administration for final review and archiving.

Countywide Policy 7035, *“Purchasing Cards Authorization and Use,”* Section 6.1 states:

“Original itemized receipts showing the detail of the goods or services purchased shall be retained and maintained by the agency. The agency fiscal manager shall be provided with unrestricted access to the P-Card files.”

The employee who submitted their P-card documentation to administration stated that he misunderstood the requirement to keep a copy of the documentation for his own files. Without copies of original P-card receipts and supporting documentation on file, records are not available for inspection.

Recommendation 4.1:

We recommend that all P-cardholders retain copies of original receipts and supporting documentation on file, available for inspection as needed.

Finding 4.2 – Sales tax was included on some purchasing card transactions.

During our examination, we searched for P-card transactions that included sales tax. We found four P-card transactions that included sales tax totaling \$42.

Countywide Policy 7035, "Purchasing Card Authorization and Use," Section 4.1 and 4.1.1 states:

"Use of a P-Card for making the following transactions is prohibited: ... County purchases are exempt from sales tax. Therefore, if sales tax is mistakenly paid and the tax to recover is worth the recovery effort, the cardholder shall take actions to obtain a credit to the P-Card account for the tax paid. Otherwise, the cardholder may be held responsible, at the discretion of their county agency management, for reimbursing the county for the amount of the sales tax."

The purchasing card reviewer overlooked searching for sales taxes included in the purchasing card transactions. When employees do not provide a Utah State Tax Commission Form "Exemption Certificate" to a vendor when making purchases, the County unnecessarily pays sales tax on those purchases.

Recommendation 4.2:

We recommend that Northwest P-cardholders request recovery of sales tax paid on P-card transactions.

Finding 4.3 – Accounting records did not show the correct location for two Northwest P-cardholders.

We examined the profiles of Northwest Recreation Center's P-cardholders to determine if the center's information, such as statement mailing address, division and department codes, and default accounting codes were consistent among them. We found that information for two of the P-cardholders did not match. One had a different mailing address and the other had a different division code.

Countywide Policy 7035, "Purchasing Card Authorization and Use," Section 10.1 states:

"The agency fiscal manager shall immediately notify the program administrator of the cardholder's pending termination or transfer to another county agency."

The two P-cardholders had transferred from other divisions within Parks and Recreation to the Northwest Recreation Center. Profile information associated with their assigned P-cards was not updated to reflect the transfers. P-cardholders who do not have updated profile information associated with their division are at risk of incorrectly applying accounting codes associated with P-card purchases, and bank statements could be misdirected or lost.

Recommendation 4.3:

We recommend that management update accounting files to show the correct mailing address and division code for the two Northwest P-cardholders incorrectly designated to other locations.

5 – Receivables

Audit Objectives:

- Determine if Northwest’s management had provided adequate separation of duties for the various roles and responsibilities related to the accounts receivable function.
- Determine if Northwest’s management of receivables complied with Parks and Recreation’s own internal policies and procedures and Countywide Policy.

Countywide Policy 1220, *“Management of Accounts Receivable and Bad Debt Collection,”* provides requirements for agencies in maintaining their accounts receivable, or amounts owed by outside parties to the agency. Northwest has a state licensed child care facility that extends credit through billing customers after receipt of services.

We determined that the duties of accounts receivable maintenance and receipt of cash were adequately segregated among employees to help prevent account manipulation in covering any theft of funds. We selected a sample of 20 customer accounts out of 57 to verify that charges, payments, and adjustments were accurately applied to customer accounts. We also verified that customer accounts reflected correct account balances. Finally, we reviewed the customer accounts that were submitted to the District Attorney’s Office for collections.

Our audit findings and recommendations in the area of accounts receivable were as follows:

Finding 5.1 – A monthly accounts receivable reconciliation was not performed.

Monthly accounts receivable reconciliations were not prepared to determine if the amount owed to Northwest for child care services rendered was correct.

Countywide Policy 1220, *“Management of Accounts Receivable and Bad Debt Collection,”* Sections 5.3.2 and 5.4 state:

“The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step. ... The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payments.”

The accounts receivable manager had neglected the preparation of a reconciliation but stated that reconciliations would begin soon. The manager faces the challenge of information recorded in two different electronic systems, the accounts receivable and point-of-sale systems. Employees manually enter payment information into the accounts receivable system because it does not interface with the point-of-sale system. The reconciliation should ensure that the ending monthly balance accounts for child care attendance, authorization in write-off or reversal of debt, and receipt of payments as recorded in the point-of-sale system. A monthly accounts receivable reconciliation validates the ending balance by ensuring that all transactions are accounted for and accurately recorded.

Recommendation 5.1:

We recommend that Northwest Recreation Center management prepare, date, and sign a monthly accounts receivable reconciliation and retain it on file.

Conclusion

We appreciate the time spent by the staff at Northwest answering our questions, gathering the necessary documentation and records, and allowing us access to the center during our audit. The staff at Northwest were friendly, courteous, and very helpful throughout the audit process. We trust that implementation of these recommendations will provide for more efficient operations and better safeguarding of County assets. Please feel free to contact our office if you have any further questions.

Sincerely,



Scott Tingley, CIA, CFP
Salt Lake County Auditor

Cc: Andrew Keddington, Associate Division Director – Fiscal Operations
Darian Abegglan, Associate Division Director – Recreation
Brent Laulusa, Fiscal Manager
Will Kocher, Northwest Recreation Center Facility Manager

Attachment A: Agency Response

Attachment A: Agency Response

Agency Response Northwest Recreation Center			
Finding 3.1: A capital asset was incorrectly described on the capital asset inventory list.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that Northwest management report the treadmill to Mayor's Finance and request them to correct the description as an elliptical machine.</i>	Agree	The Parks and Recreation Fiscal Manager has notified Mayor's Finance on 04/17/18 to ensure that their records are updated.	04/17/18
Finding 3.2: A controlled asset was not listed on the controlled asset inventory list.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that Northwest management research acquisition information and add the computer to their controlled asset inventory list.</i>	Agree	This computer has been tagged by the Program Coordinator and added to our asset inventory list on 04/17/18.	04/17/18
Finding 4.1: A P-cardholder did not have copies of purchasing card documentation on file.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that all P-cardholders retain copies of original receipts and supporting documentation on file, available for inspection as needed.</i>	Agree	Expectations have been made clear to this employee that they must retain copies of their records and not rely solely on department administration to do so. This conversation was had by the Facility Manager with the Program Manager on 04/18/18.	04/18/18
Finding 4.2: Sales tax was included on some purchasing card transactions.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that Northwest P-cardholders</i>	Agree	Division Administration and Center Management are requesting recovery of sales tax from the employee in question.	04/27/18

<i>request recovery of sales tax paid on P-card transactions.</i>		The Program Coordinator made payment in full to Mayors Finance 04/27/18.	
Finding 4.3: Accounting records did not show the correct location for two Northwest P-cardholders.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that management update accounting files to show the current mailing address and division code for the two Northwest P-cardholders incorrectly designated to other locations.</i>	Agree	Requests for updates of accounting files have been sent to department administration. This was completed by the Assistant Fiscal Manager in January 2018.	01/2018
Finding 5.1: A monthly accounts receivable reconciliation was not performed.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that Northwest Recreation Center management prepare, date, and sign a monthly accounts receivable reconciliation and retain it on file.</i>	Agree	This procedure was discussed at Northwest Community Center staff on 04/17/18. It will be implemented by the Childcare Director and Office Coordinator at Northwest Community Center for the May 2018 receivables.	05/2018