
A Report to the
Citizens of Salt Lake County
The County Mayor and the
County Council

An Audit of Key Controls
at the Redwood
Recreation Center



OFFICE OF THE
SALT LAKE COUNTY
AUDITOR

SCOTT TINGLEY
COUNTY AUDITOR

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

We recently completed an audit of key controls at the Redwood Recreation Center ("Redwood"). The purpose of the audit was to examine financial transactions and business processes at Redwood to determine if internal controls related to cash receipts, receivables, capital and controlled assets, purchasing cards, and inventory were properly implemented and functioning as intended. We performed tests of those key controls to provide assurance that accounting records were complete and accurate, financial transactions and processes complied with established policies, procedures, laws and regulations, and that county assets were adequately safeguarded against the risk of loss, theft, waste, or abuse.

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 issues related to items not specifically selected for review.

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

By its nature, this report focuses on issues, exceptions, findings, and recommendations for improvement. The focus should not be understood to mean that we did not find various strengths and accomplishments at Redwood. We truly appreciate the time and efforts of the employees at Redwood

throughout the audit. Our work was made possible by their cooperation and prompt attention given to our requests.

Scope and Methodology

Our audit covered the period from September 1, 2017 through August 31, 2018. Our audit work included a formal examination of financial records related to the following operational areas:

- Petty Cash and Change Funds
- Cash Handling and Daily Deposits
- Capital and Controlled Assets
- Purchasing Cards
- Merchandise Inventory
- Accounts Receivable

In addition to examining financial records, we observed business practices and tested the internal controls surrounding them. We examined daily cash collections and deposits, interviewed employees, physically examined capital and controlled assets, performed a count of petty cash, examined purchasing card (P-card) transactions, counted merchandise inventory, and reviewed accounts receivable.

Audit Results

1 – Petty Cash and Change Funds

Audit Objectives:

- Determine if the petty cash fund is intact and maintained at the authorized amount.
- Determine if petty cash purchases are appropriate (for the intended use of the funds) and comply with countywide policies.
- Determine if the change fund is maintained at its authorized amount.
- Determine if the change fund is properly safeguarded against loss, theft, or misuse.

The authorized amount of Redwood’s change fund is \$500, and the authorized amount of the petty cash fund is \$500. The change fund is used by cashiers to make change for customers and patrons. We performed a surprise count of the change fund that compared the total cash on hand, less the change fund balance to arrive at the collection amount in the drawer. We found that the change fund was intact and maintained at the authorized amount.

We performed a surprise count of the petty cash fund that compared the total cash on hand, less reported purchases, to arrive at the remaining petty cash fund balance. We found that the petty cash fund was intact and that all purchases were accounted for.

We also interviewed the staff at Redwood and reviewed change fund procedures with them. We physically observed that the change fund was properly safeguarded within the cash register during operating hours, and within a locked safe at night. We requested fund transfer documentation and found that cashiers were adequately documenting the transfer of funds to and from the safe.

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

2 – Cash Handling and Daily Deposits

Audit Objectives:

- Determine if cash handling and daily deposit procedures at Redwood comply with countywide policies.
- 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.

Our audit examined cash handling and depositing procedures at Redwood to determine if those procedures complied with countywide policies. We also examined whether daily collections were properly accounted for and adequately safeguarded against the risk of loss or theft. Countywide Policy 1062, *“Management of Public Funds,”* establishes procedures for receipting, recording, and depositing funds, and defines functions and responsibilities to establish internal controls over these processes.

We observed cash receipting procedures at Redwood and reviewed those procedures with staff members. We noted that cashiers were aware of countywide policies concerning the management of public funds, and we found that daily collections were properly safeguarded prior to being deposited at the bank.

To determine if depositing procedures complied with countywide policies, we examined a judgmental sample of 30 deposits. We analyzed deposit documentation to verify that amounts collected per the cash register transaction reports matched the amounts reported on cashiers’ *Daily Cash Balance Sheets*. We also verified that the total amount of cash and check collections were deposited each day, and that deposits were made no later than three days after receipt in

accordance with Countywide Policy. As with other recreation facilities, Redwood uses Sportsman software for its point-of-sale ("POS") and customer accounts receivable ("A/R") management systems.

We interviewed the staff at Redwood and reviewed depositing procedures with them. We found that deposits were properly safeguarded but that deposit amounts were not always accurate. We examined a sample of no-sales reported by the point-of-sale ("POS") system and void transactions and found that they were not properly documented and reviewed. Overall, though, we found that depositing procedures at Redwood complied with countywide policies.

Our audit findings and recommendations in the area of cash handling and daily deposits were as follows:

Finding 2.1 – A supervisor did not sign a few voided transactions as evidence of review and approval.

We reviewed a sample of 30 bank deposits that comprised collections from transactions and sales at Redwood. In the deposit sample, we noted 12 voided transactions in the sample, and reviewed them to ensure that each voided transaction had been documented properly, and that a supervisor had reviewed and authorized the void. We determined that three out of the 12 voided transactions (or 25%) were not reviewed and authorized by a supervisor and were lacking the supervisor's signature on the void slip as evidence of review and approval.

Countywide Policy 1062, "*Management of Public Funds*," Section 3.7.3, outlines the responsibilities of the employee who initiates the void, and the employee's supervisor to review voided transactions:

"A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void. All voided receipts will be attached to the daily cash balance sheet for audit purposes."

In these three instances, a supervisor had not signed the void slips, and therefore we could not determine whether the voided transactions had been properly reviewed and approved by management, as required by countywide policy. Having a supervisor review and authorize all voided transactions is a key internal control designed to deter and prevent employee theft. For example, if an employee receives cash in a sales transaction and then voids the sale, the employee can easily conceal theft if the voided transaction is not properly reviewed and approved by management. Therefore, it is critical that management at Redwood make every effort to review and approve all voids to prevent and/or detect theft.

Recommendation 2.1:

We recommend that a supervisor sign all voided transactions as evidence of review and approval as required by countywide policy.

Finding 2.2 – Management did not review and sign for no-sale transactions created by cashiers.

We reviewed a sample of 30 days of collections from sales transactions at Redwood. We observed 202 no-sale transactions from our review of the sample of 30 business days, which averaged seven no-sale transactions per day. Of the total 202 no-sale transactions, we noted that a supervisor had only reviewed and signed 23 (or only 11%).

In other words, we found 179 (or 87%) no-sale transactions that the supervisor had not signed as evidence of review and approval. A no-sale transaction occurs when a cashier opens the drawer with no sales transaction taking place.

Although countywide policy does not address no-sale transactions specifically, we have noted several recent cases of employee theft occurring throughout the county, where cashiers have pretended to enter sales transactions into the point-of-sale system, and then opened the cash drawer later in the day by entering a no-sale transaction to pocket the cash. One such case occurred at the Holladay Lions Recreation Center in 2015.

In our opinion, supervisors and managers should review daily transaction logs for excessive or suspicious no-sale transactions. When practical, supervisors and managers should establish a review and approval process for all no-sale transactions, which should include a signature of the supervisor conducting the review and authorizing them. Therefore, County supervisors and managers can more effectively monitor no-sale transactions for signs of possible fraud or theft by cashiers manipulating cash sales transactions.

Recommendation 2.2:

We recommend that a supervisor at Redwood review daily transaction logs and sign-off for all no-sale transactions.

3 – Capital and Controlled Assets

Audit Objectives:

- Determine if Capital and Controlled Assets are identified accurately, physically present, and accounted for properly.

- Determine if Capital and Controlled Assets are properly safeguarded against theft, loss, or misuse.
- Determine if Capital and Controlled Asset management practices comply with Countywide Policy.

Our audit included an examination of capital and controlled asset management at Redwood. 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 for safeguarding, accounting for, and disposing of those assets.

Countywide Policy 1125, “*Safeguarding Property/Assets*,” states that a capital asset is an item with an estimated useful life of more than one year and a cost equal to or greater than the capitalization rate, which currently is \$5,000. Capital assets are recorded in the County financial system and monitored by the Mayor’s Office of Financial Administration (“Mayor’s Finance”), in addition to the agency where the asset is located. During our audit, we reviewed a total of three fixed assets and 35 controlled assets. The fixed assets assigned to Redwood included two copy machines and a piece of artwork. We observed that one of the copy machines had recently been disposed of by Redwood, but that Mayor’s Finance had not yet removed it from the fixed asset list.

We also selected a sample of 35 controlled assets out of the total 245 on Redwood’s controlled assets list. Countywide Policy 1125, “*Safeguarding Property/Assets*,” defines a controlled asset as an item of personal property having a cost of \$100 or greater, but less than the current capitalization rate. Due to their nature, controlled assets are more susceptible to theft or conversion to personal use.

The designated property manager at each County organization has the responsibility to account for all controlled assets within the organization’s operational and physical custody. Countywide Policy 1125, “*Safeguarding Property/Assets*,” also defines employees’ duties and responsibilities when capital or controlled assets are assigned to them for their use.

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

Finding 3.1 – Property identification tags were missing from some capital and controlled assets, and management at Redwood had not corrected these issues during the last physical inventory of county-owned assets.

Redwood had a total of three capital assets on their capital asset list. We found that one of the capital assets, a Sharp copy machine, did not have a property identification (“ID”) tag affixed to

the machine. For county-owned fixed assets, such as the Sharp copy machine at Redwood, Mayor's Finance issues a unique asset ID tag for each fixed asset that is purchased by county entities. The asset ID tag properly identifies the asset as belonging to the county, and ensures that capitalized asset descriptions, original costs, and depreciation expenses are accurately recorded and reported within the county's financial statements.

Redwood also had an inventory list of 245 items that met the criteria of being classified as a controlled asset. Controlled assets are items of personal property that are not capitalized on the county's financial statements, but instead are expensed as part of a county agency's annual operational expenses. Controlled assets are of such a nature that they are easily convertible to personal use, or are susceptible to theft, misuse, or abuse by employees or the public.

Out of the 245 items listed, we selected a sample of 35 items to review. We found that eight (or 23%) out of the 35 controlled assets in our sample did not have an asset ID tag affixed to the item, and that one controlled asset had an ID tag with an incorrect ID number compared to the asset ID number listed on the controlled assets list. Table 1, below, shows the nine controlled assets with either incorrect or missing ID tags.

Table 1. Controlled Assets with Missing or Incorrect Tags. Nine controlled assets from our total sample of 35, or 26%, were missing asset ID tags, or had incorrect tag numbers as per Redwood's controlled asset list.

Controlled Assets with Missing or Incorrect Tags	
Tag Number, per Asset Listing	Asset Description
417	Air hockey table
130/215	Arcade basketball hoop
279	Conference table
187	Dry erase board
255	Exercise room television
355	Ice machine
3	Pitching machine
335	Refrigerator
107	Soccer goals

Countywide Policy 1125, "Safeguarding Property/Assets," Section 2.2.1, discusses the responsibility of County property managers to establish accountability for capital assets:

"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."

Section 2.2.2, discusses the responsibilities of property managers over controlled assets:

"Accounting for all controlled assets within the organization's operational and/or physical custody in accordance with paragraph 4.0 of this policy."

Management at Redwood stated that the asset ID tags were missing or incorrect for various reasons, including:

- Delays in receiving the fixed asset ID tags in a timely manner from Mayor's Finance;
- Difficulty in attaching asset ID tags due to the location or position of the assets;
- Assets that had been tagged, but the ID tags had fallen off and not been replaced;
- Asset ID tags that had become worn to the point of not being recognizable at the time of the audit.

However, it is important to note that Countywide Policy 1125 requires that each county agency conduct a physical inventory of controlled assets at least once each year. In our opinion, most of these issues could have been addressed and corrected during the last physical inventory of controlled assets by management at Redwood.

Proper identification and tracking of county assets, along with conducting timely physical inventories, are key internal controls intended to help reduce the risk of loss, theft, or misuse of those assets. When assets are not properly tagged with a property ID tag, the property manager at the facility would have more difficulty tracking the assets and determining whether they are accounted for and on-site. Ensuring that fixed and controlled asset items are properly tagged, identified, and accounted for, enables management to be more effective in their responsibilities regarding the protection and safeguarding of County assets.

Recommendation 3.1:

- A. We recommend that the Property Manager at Redwood ask Parks and Recreation administration to follow-up with Mayor's Finance to ensure that they receive any capital asset ID tags in a timely manner.***
- B. We recommend that the Property Manager at Redwood create new controlled asset ID tags and affix them to all controlled assets that are missing a tag and ensure that those controlled assets with incorrect asset ID tag numbers are properly tagged with new ID tags.***

Finding 3.2 – Management at Redwood had not implemented the procedure of using the *Controlled Assets Inventory Form – Employee* to establish personal accountability for controlled assets that were readily assignable to individual employees, as required by countywide policy.

We noted that management at Redwood was not using the *Controlled Assets Inventory Form – Employee*, to establish individual accountability for controlled assets that had been assigned to specific Redwood employees.

Countywide Policy 1125, 4.0 Procedures Controlled Assets, Section 4.1, states:

“General accountability for controlled assets is the responsibility of each organization’s Property Manager; however, individual accountability rests with each employee assigned controlled assets.”

Furthermore, Countywide Policy 1125, Section 4.3.1, discusses the responsibility of property managers to establish good internal control procedures using the controlled assets inventory forms:

“Exhibit 3 – ‘Controlled Assets Inventory Form -Employee’ is used for those assets that due to their nature, are used by and therefore readily assignable to an individual.”

The current Property Manager at Redwood stated that she is new to the facility. She explained that the *Controlled Assets Inventory Form – Employee* form had not been used prior to her arrival, but her intent was to implement its use. The Property Manager is currently completing the annual asset inventory and intends to implement individual accountability over assets, using the form as we discussed during the audit. Use of the *Controlled Assets Inventory Form – Employee* is a key internal control that helps to ensure that county assets are properly safeguarded against loss, theft, or misuse.

The forms establish personal accountability for the assets that have been assigned to specific Redwood employees, so that there can be better management oversight over those controlled assets. Management at Redwood should assist the new Property Manager with implementing the use of the forms as soon as possible.

Recommendation 3.2:

We recommend that the Property Manager implement the use of, and have employees sign the Controlled Assets Inventory Form – Employee for all assets assigned to specific employees at Redwood to establish individual accountability over those assets.

4 – Purchasing Cards

Audit Objectives:

- Determine if purchasing card purchases are appropriate and comply with countywide policies.
- Determine if purchasing cards are adequately safeguarded against loss, theft, or misuse.
- Determine if purchasing card transactions are properly reviewed and authorized by management.

We examined purchasing card (“p-card”) transactions made by Redwood personnel during the audit period. Countywide Policy 7035, “*Purchasing Cards Authorization and Use*,” establishes guidelines for the acquisition and proper use of p-cards, including, ensuring proper segregation of duties, allowable and unallowable purchases, establishing credit limits, record keeping and reconciliations, and what to do if the card is lost or stolen.

We examined a sample of transactions made during the audit period and found that all had been properly reviewed and approved by management. We verified that all current cardholders at Redwood had received proper training on Countywide Policy 7035.

We noted no significant findings in the area of purchasing cards.

5 – Merchandise Inventory

Audit Objectives:

- Determine if there is adequate separation of duties between the purchasing, receiving, custody, and payment functions for merchandise inventory items held for re-sale.
- Determine if merchandise inventory items are properly safeguarded against loss, theft, or misuse.
- Determine if merchandise inventory is accounted for properly and whether management provides adequate fiscal oversight over merchandise inventory management functions.

Redwood keeps a small inventory of merchandise items such as racquetball gloves, various types of balls, hand towels, wrist bands, and other sporting goods for re-sale. We determined from a complete count of all the merchandise inventory items on hand at Redwood, that the total retail price of the items on hand was \$1,102. We also determined after interviewing management at Redwood that the small number of merchandise items held for re-sale are maintained as a convenience for patrons, and that Redwood rarely sells any of the items, resulting in a very low inventory turnover ratio. Management at Redwood commented that stocking and selling merchandise items do not form a central part of the mission or focus of activities at the Redwood Recreation Center.

During the audit, we noted that all merchandise inventory items at Redwood were reasonably safeguarded against the risk of loss or theft during business hours, since the items are kept in a locked glass cabinet behind the cashiering area, that is not accessible to the public.

Our audit finding and recommendation in the area of merchandise inventory was as follows:

Finding 5.1 – Management at Redwood did not track the purchasing or receiving of merchandise inventory items, nor conduct periodic counts of merchandise inventory on hand, to ensure that inventory items were properly accounted for.

During our audit, we assessed whether internal controls related to the purchasing, receiving, custody, and payment for merchandise inventory items at Redwood were adequate, and whether there was proper separation of duties between each of those functions, to help prevent loss, theft, waste, or abuse of merchandise inventory. We noted that management at Redwood did not track the purchasing or receiving of merchandise inventory items held for re-sale, or conduct periodic inventory counts of these items, to ensure that they were accounted for properly.

Management stated that they were not aware of the need to track merchandise inventory items because of their relatively low re-sale value, and infrequent sales. We did observe that all the items currently on-hand were kept in a locked glass cabinet behind the cashiering station, to prevent easy access to the items by any unauthorized persons. Also, the Facility Manager stated that all merchandise items were purchased before she assumed the role in late 2017. She also stated that a former staff member, who has since retired, made the inventory purchases, but did not keep a count of items purchased or received. Also, the current manager did not know the whereabouts of receipts for any of these purchases.

We made a complete count of the merchandise inventory items on hand at Redwood and determined that the items had a total retail price of \$1,102. However, since management had not kept records of inventory purchases, receipts, or any inventory items returned, we were unable to verify if the item counts or total retail price of \$1,102 was the correct amount.

We compared merchandise inventory counts from SportsMan (Redwood's POS system) with our inventory counts and found that there were several merchandise inventory items that had been entered into the system, but could not be found anywhere on-site, as shown in Table 2, below. We noted that these items had a per unit cost, but no quantity listed in SportsMan.

Table 2. Merchandise Inventory Items Listed in SportsMan That Could not be Found On-site.

We found at least 12 merchandise inventory items that had been entered in SportsMan, that could not be found on-site. The quantities of missing items could have been greater than just one of each item type, since management at Redwood was not tracking the quantity, or number of merchandise inventory items received in each shipment.

Merchandise Inventory Items Listed in SportsMan That Could not be Found On-site					
Item	Unit Cost	Quantity	Item	Unit Cost	Quantity
Basketball, brown	\$25.00	N/A	Ball, purple	\$5.50	N/A
Basketball, two color	\$13.00	N/A	Racquetball Starter Set	\$30.00	N/A
Eye Guards	\$13.00	N/A	Goggles	\$2.00	N/A
Racquetball, green	\$5.50	N/A	Goggles Mask	\$3.00	N/A
Head Web Glove	\$11.50	N/A	Shin Guards	\$7.00	N/A
Headbands	\$2.00	N/A			

Good internal controls over inventory management include establishing proper separation of duties between the purchasing, receiving, custody, and payment for inventory items. Ideally, each of these functions should be the responsibility of separate individuals, or at the very least, the process should be reviewed and approved by someone with authority who is not directly involved in any of the functions. Ensuring that the quantity, type, and condition of inventory items received matches purchasing records exactly is a critical internal control that is designed to deter theft or fraud.

In addition, restricting access to inventory items, and conducting periodic counts of inventory to verify the quantity of items on-hand, ensures that inventory items are properly accounted for and safeguarded until they are sold. We recommend that management at Redwood implement these inventory management practices to ensure that merchandise inventory items are properly accounted for and adequately safeguarded against the risks of theft, loss, or abuse.

Recommendation 5.1:

- A. We recommend that Redwood's Facility Manager implement a process to verify that the quantity, type, and condition of inventory items received matches inventory purchasing records exactly, and documents the actual receipt of inventory items in SportsMan as those items are received.***

B. We recommend that Redwood conduct a physical count of merchandise inventory items at least annually, to determine whether inventory items are accounted for and safeguarded properly.

6 – Accounts Receivable

Audit Objectives:

- Determine if credit is granted to County customers and patrons as defined in Countywide Policy 1220, *Management of Accounts Receivable and Bad Debt Collection*.
- Determine if the management of accounts receivable complies with Countywide Policy.
- Determine if payments received for accounts receivable are properly recorded, safeguarded, and deposited in compliance with Countywide Policy.
- Determine if collection activities on all past due accounts comply with Countywide Policy.

Our audit included an examination of customer accounts receivable records and accounts receivable management procedures at Redwood. Countywide Policy 1220, *“Management of Accounts Receivable and Bad Debt Collection,”* establishes the policies and procedures for the proper management of customer accounts receivable, including monitoring aging, debt collection policies, and accounting practices. Accounts receivable comprise amounts owed on services already received but not yet paid for by customers.

County recreation centers use the SportsMan POS system to manage and monitor receivables. The net outstanding balance of every account at Redwood as of October 25, 2018 was \$18,538.

Redwood does not have any internal policies or procedures for managing or collecting customer accounts receivable. The Facility Manager stated that normally they require payment upfront for such things as day camp, fitness class registrations, and facility rentals; therefore, they would not expect to have any uncollected accounts. They consider accounts receivable as unplanned and an unintended consequence of customers who did not pay and yet used services or rented rooms in the facility. In other words, the staff at Redwood allowed fees to be waived for certain patrons, without a defined set of policies or procedures in place to ever collect those fees in the future.

Redwood rents rooms to various individuals, groups, or organizations. The Facility Manager creates room reservations accounts in SportsMan and enters a sales transaction on the account for the amount that the customer has agreed to pay for renting the facility. As payments for the rental fees are received, the receivable balance on the account is credited in SportsMan until the full rental charges are paid-in-full. We noted that although these unearned rental fees

should not technically be entered this way, the Facility Manager uses the SportsMan POS system to keep track of rental charges as they become due, and records pre-payments on the accounts as they are paid.

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

Finding 6.1 – Management at Redwood was not mailing monthly statements to customers with outstanding receivables balances, notifying customers with past-due accounts, or assessing finance charges on accounts with balances more than 30 days past due, as required by countywide policy.

We found that management at Redwood was not sending monthly statements to customers with outstanding receivable balances, or assessing finance charges on past due accounts, as required by countywide policy. In addition, management at Redwood was not mailing notices, or dunning letters, to customers that had accounts that had become delinquent.

We noted that out of the total \$18,538 current outstanding receivables balance at Redwood, a total of \$6,543 (or 35%) was more than 30 days past due. We also noted that some of the accounts were seriously delinquent, with unpaid balances that were several years past-due.

Countywide Policy 1220, "*Management of Accounts Receivable and Bad Debt Collection*," Sections 4.2.3, 4.4, and 4.5 state:

"Follow-up statements should be sent once a month to all patrons with an account balance ... Payments received after the due day shall be allowed a two-day grace period, following which interest will be charged at 1 1/2 percent per month (18 percent per annum) on the unpaid balance of the account ... When an account becomes past due, the debtor shall be mailed a Dunning Letter in which immediate payment is demanded and the assessment of interest charges is explained. The first Dunning Letter should be sent ten days following the account becoming past due."

The Facility Manager stated that she had sent emails to remind some customers to make payments on their accounts but had not gone through the formal process of actually mailing monthly account statements to customers with outstanding account balances. In addition, she felt that since prior facility managers had not kept documentation of customer credit applications, facility rental agreements, or payment records, that most of the seriously delinquent account balances could not be substantiated and were therefore uncollectible.

Mailing monthly account balance statements is a simple way to verify with customers that the amounts still owed are valid, and dramatically increases the likelihood of receiving prompt payments from customers. Assessing finance charges on delinquent accounts also increases the likelihood that customers will pay past-due account balances as well. Since Redwood was

not mailing monthly customer account statements or notifying customers when their accounts had become seriously past-due, the ability to collect on those accounts was significantly diminished. When customers and patrons of Redwood do not pay for services they receive, their customer experience and use of the facilities at Redwood are unfairly subsidized by paying customers and the taxpayers of Salt Lake County.

Recommendation 6.1:

- A. We recommend that Redwood mail monthly account statements to all customers with outstanding account balances as of the end of each month.**
- B. Redwood should also notify customers of delinquent account balances by sending dunning letters to all customers with unpaid account balances that are greater than 30 days old, and assess a 1.5% per month interest charge, as required by countywide policy.**

Finding 6.2 – Parks and Recreation administration had not established standard operating procedures for managing accounts receivable for recreation centers to follow.

We were told that five groups consistently rent rooms on a daily or weekly basis at Redwood. In these cases, to secure room rental reservations, the Facility Manager blocks out rentals to these groups over several weeks of time in SportsMan. The Facility Manager then enters an amount of rental charges due for the block of time, without receiving payment from the customer, and therefore creating an accounts receivable in the POS system.

As we noted earlier in this report, that although *unearned* rental fee income should not technically be accounted for in this way, the Facility Manager at Redwood was doing the best she could with the tools and direction provided to her. Through our work on this audit, and many prior audits of recreation center accounts receivable balances, we found that Parks and Recreation administration had not established standard operating procedures to guide recreation center management in properly accounting for and managing accounts receivable for the recreation centers to follow.

Countywide Policy 1220, "*Management of Accounts Receivable and Bad Debt Collection*," Section 2.4, states:

"The information in Sections 3.0, 4.0, and 5.0 are basic accounts receivable procedures. Agencies may develop their own accounts receivable procedures as long as they follow the basic guidelines as detailed above and are consistent with the procedures

listed below. The procedures in this policy must be followed unless an agency has developed its own written procedures.

The Facility Manager at Redwood followed procedures put in place by former facility managers for what she felt worked best for reserving rooms, tracking amounts owed, and booking rental fee payments in the POS system. She stated that without entering a dollar amount for the reservation into the SportsMan software management system, a second reservation would need to be created at the time of payment. Creating a second reservation would not only be inefficient, but she felt the front desk cashier would not have adequate expertise or knowledge to create it accurately. In addition, under the current method, the customer payment automatically posts to the block reservation.

From September 1, 2017 through August 31, 2018, we found 27 block reservations made in the POS system that totaled \$30,620. Payment records in Sportsman showed that customers had paid down most of this amount, or management had deleted outstanding account balances.

Customers renting rooms or facilities at Redwood can pay in small increments ranging anywhere from \$2.00 to \$20.00 for each day or time they use a room. We reviewed hundreds of lines of data of customer payments for room reservations and room rental charges during the audit period.

We found a total of 16 account deletions that totaled \$10,425, and 13 adjusting entries to accounts that totaled \$2,322. The notes on the accounts within SportsMan did not adequately explain the reasons for these deletions and adjustments. From 2013 to 2016, prior to the current Facility Manager's tenure, we noted 26 adjustments to a single customer's account balance that reduced the account balance by \$2,887, and 8 deletions totaling \$1,419.

In our opinion, it is critical that key control activities, such as proper separation of duties, management review and approval of account balance adjustments, and regular reconciliations of accounts receivable balances are established and communicated in a set of standard operating procedures for recreation center management to follow.

Recommendation 6.2:

We recommend that Parks and Recreation administration establish standard operating procedures for managing accounts receivable that can be followed by recreation center employees and management.

Finding 6.3 – Management at Redwood was not performing a monthly reconciliation of accounts receivable balances, resulting in an outstanding balance of \$18,538 that they did not consider as totally accurate.

We reviewed accounts receivable management procedures at Redwood and found that management was not performing monthly reconciliations of accounts receivable balances, as required by countywide policy. We reviewed outstanding account balances in SportsMan and found that the total outstanding customer accounts receivable balance on October 25, 2018, was \$18,538. The Facility Manager stated that 12 of these accounts, totaling \$4,651, were not legitimate accounts receivable and, therefore, should not be included in the total. In addition, she could not determine the validity of accounts receivable totaling \$7,259, that had been recorded prior to her tenure.

Countywide Policy 1220, "*Management of Accounts Receivable and Bad Debt Collection*," Section 5.3.2, states:

"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."

Management did not know that Countywide Policy required a monthly accounts receivable reconciliation. Management has not reviewed accounts receivable to update the accounts for legitimate balances. The Facility Manager knew which individuals had registered for programs or reserved the facilities and managed the accounts receivable based on her specialized knowledge without documenting a reconciliation of the accounts.

During our audit, the Facility Manager identified 12 organizations or individuals that she stated had not received the services for which they registered, resulting in the invalid account balances of \$4,641. She had no knowledge or insight into the \$7,259 that occurred prior to the beginning of her tenure as manager in 2017, but also considered many of these invalid due to the customer not using the service reserved and documented in SportsMan. Collection efforts on some legitimate accounts did not occur due to confusion from accounts that management considered as not valid. The manager's specialized or proprietary knowledge of delivery of services, which was not documented, left any succeeding manager or interested parties at a disadvantage for assessing account collectability.

Recommendation 6.3:

A. We recommend that the Facility Manager remove uncollectible accounts receivable balances from Sportsman that are not considered legitimate and sufficiently document the reason in SportsMan notes for their removal.

B. We recommend that management reconcile accounts receivable each month to arrive at a legitimate and verifiable balance.

Conclusion

We appreciate the time spent by the staff at Redwood in answering our questions, gathering the necessary documentation and records, and allowing us access during our audit. The Redwood staff was 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, CGA
Salt Lake County Auditor

Cc: Andrew Keddington, Associate Division Director – Fiscal Operations
Ron Butterfield, Regional Recreation Manager
Brent Laulusa, Fiscal Manager
Brandy Hess, Redwood Facility Manager

Attachment A: Agency Response

Attachment A: Agency Response

Agency Response Redwood Recreation Center			
Finding 2.1: A supervisor did not sign a few voided transactions as evidence of review and approval.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that a supervisor sign all voided transactions as evidence of review and approval.</i>	Agree	In July 2018, SportsMan security was adjusted so that no front desk staff had void rights. Since then, all voids require a manager's approval at the time of the void. We have also conducted several staff meetings to review voiding procedures with all staff. The Facility Manager will continue to conduct periodic audits to verify that proper procedures are followed.	12-31-2018
Finding 2.2: Management did not review and sign for no-sale transactions created by cashiers.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that a supervisor review and sign-off all no-sale transactions.</i>	Agree	The cash balance sheet has been modified to enable staff to document no-sale transactions. The Office Coordinator will do all deposits and review and sign no-sale transactions.	12-31-2018
Finding 3.1: Property tags were missing from some capital and controlled assets.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE

<p>1. We recommend that the Property Manager ask Parks and Recreation administration to follow-up and deliver any capital asset tags expected but not yet received.</p> <p>2. We recommend that the Property Manager affix a property tag to all controlled assets.</p>	<p>Agree</p>	<p>Parks and Recreation administration has requested a tag from Asset Management. The Facility Manager will affix the tag to the copier once it arrives.</p>	<p>02-15-2019</p>
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Finding 3.2: The 'Controlled Assets Inventory Form-Employee' was not used to establish individual accountability over controlled assets.

RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<p>We recommend that the Property Manager use and have employees sign the "Controlled Assets Inventory Form - Employee" for all assets assigned to specific employees at Redwood to establish individual accountability over assets.</p>	<p>Agree</p>	<p>After the Facility Manager has completed verification of all county equipment, individual accountability will be established for each controlled asset.</p>	<p>03-31-2019</p>

Finding 5.1: Management at the Redwood Recreation Center did not track and conduct periodic counts of its merchandise inventory on hand.

RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
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<p><i>We recommend that the Facility Manager produce a list of all merchandise items on hand by price and count value and conduct a physical count at least annually to determine if changes to the count are explained by new inventory purchases and sales to customers.</i></p>	<p>Agree</p>	<p>The Facility Manager has created a system to track and account for merchandise items on a monthly basis. The Facility Manager will conduct periodic audits and follow up with any discrepancies.</p>	<p>12-31-2018</p>
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Finding 6.1: Management was not mailing notices on past due accounts or assessing finance charges.

RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<p><i>We recommend that monthly statements of accounts and Dunning letters be mailed to customers with past due accounts and a 1.5% per month interest charge assessed to them.</i></p>	<p>Agree</p>	<p>An outstanding balance report has been created and will be reviewed monthly by the Facility Manager. Dunning letters have and will continue to be sent to past due accounts. Interest charges will be applied as appropriate.</p>	<p>12-31-2018</p>

Finding 6.2: Parks and Recreation did not have any standard operating procedure in place for accounts receivable.

RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<p><i>We recommend that Parks and Recreation administration formulate a standard operating procedure for accounts receivable that will create accurate financial reporting and help guard against concealment of theft.</i></p>	<p>Agree</p>	<p>Parks & Recreation will add to its existing SportsMan Standard Operating Guidelines to address when block reservations vs individual reservations should be used, what should go into the SportsMan adjustment notes, and how often the transactions should be reviewed by the Facility Manager.</p>	<p>04-01-2019</p>

Finding 6.3: Management did not reconcile accounts receivable each month, resulting in a balance of \$18,538 that they did not consider as totally accurate.

RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
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<p>1. We recommend that the Facility Manager remove uncollectible accounts receivable balances from Sportsman that are not considered legitimate and sufficiently document the reason in SportsMan notes for their removal.</p> <p>2. We recommend that management reconcile accounts receivable each month to arrive at a legitimate and verifiable balance.</p>	<p>Agree</p>	<p>The transactions in question were reconciled in November 2018. An outstanding balance report has been created and will be used to verify past due accounts.</p>	<p>11-30-2018</p>
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