SALT LAKE COUNTY AUDITOR'S OFFICE

JEFF HATCH
Auditor

April 16, 2007

Bruce Henderson, Acting Director
Parks and Recreation Division
2001 South State Street S4400
Salt Lake City, Utah 84190

RE: County Ice Center Audit

Dear Bruce:

The Internal Audit Division recently completed an audit of the County Ice Center (CIC). We reviewed the following: cash receipting and depositing, accounts receivable, capital and controlled assets, petty cash, Pro-shop sales, concessions sales and vending. We also conducted an unannounced count of all funds at the Center and a payroll audit.

For each of these areas, we examined internal controls and procedures in place to determine compliance with Countywide policies pertaining to the areas of our examination. Our work at the Center was designed to provide reasonable, but not absolute, assurance that the system of internal control was adequate, records current and daily transactions valid.

We found that documentation for cash receipting, such as Z-tapes and daily balance sheets, were filed in an orderly manner. Many internal controls were in place to help ensure the integrity and accuracy of transactions. These controls included separation of duties together with dual review and verification of crucial steps in the cash handling process.

In addition, we noted that many of the recommendations of our previous audit (letter dated May 2003) have been implemented including connecting satellite cash registers to the network and the use of plastic, tamper-proof deposit bags.

We have limited our comments, which are not all-inclusive of the scope of the work performed, to major findings and recommendations. Other areas of concern have been discussed with management at the Center. The reader should not assume that processes not discussed here are in compliance with Countywide policy.

CASH RECEIPTING AND DEPOSITING

Our audit included examining cash handling procedures to determine whether Countywide Policy #1062, "Management of Public Funds," was being followed. We counted all funds on the premises, including cash receipts not yet deposited, the change fund and petty cash fund. We also reviewed a sample of deposits from the past twelve months, and reconciled these deposits to bank statements on file.

We discovered a few items of concern during our examination for which we have made recommendations.

- **Over/Short Logs were not used.**

- **Cashiers did not consistently sign the "Start-Up Log."**

Over/Short Logs were not used. As we reviewed the documentation associated with the cash collection and receipting, we found that a Cash Over/Short Log, MPF Form 11, was not being used. See Attachment A for an example of this form. The bookkeeper noted each cashier's over or short activity in an Excel file on a monthly basis. However, this file was not initialed or otherwise acknowledged by the cashiers, nor was there any evidence of management review. By reviewing the Over/Short Excel file for December, 2006 we noted 36 over or short events, three of which were $10.00 or more. One of these was a $126.00 overage on December 5. On a by-cashier basis, one cashier had seven overs or shorts, and four had 3 or 4 during the month. Again, there was no evidence of management review of this activity.

Countywide Policy #1062, Section 5.2 states, *"Shortages…will be reported on the MPF Form 3 and MPF Form 11. MPF Form 11 must be maintained and a copy signed by the immediate supervisor shall be attached to the Monthly Report of Cash Receipts that is sent to the Auditor's Office."* The Cash Over/Short Log is designed to be an individual form, used to record and track the cash outages for each employee and includes separate lines for the employee's and the Supervisor's signature. The purpose of the form is twofold: 1) to have employees acknowledge any cash over or short, and, 2) to provide management a tool to review cashier performance on a monthly basis.

There was a three-ring binder labeled "Cash Over/Short Log" in the front desk area, however, there were no over/short logs in it. When we inquired about the status of the over/short logs, we were told that the Excel file had taken the place of the over/short log. As stated above, we do not believe the Excel file, in its current configuration, fulfills the intent of Policy #1062.

Without an MPF Form 11, or equivalent, management does not have a means of tracking cash outages on a by-cashier basis, nor are cashiers held directly accountable for overages or shortages. In our letter report dated May 7, 2003, we recommended *"…that the County Ice Center maintain over/short logs and that cashiers sign their individual logs."* Management indicated that this recommendation had been implemented in their response for the Annual Report of Internal Audits. However, the practice has since been abandoned.

RECOMMENDATION:

We recommend that the MPF Form 11, Cash Over/Short Log, or equivalent be re-implemented and that cashiers and management sign the form.

Cashiers did not consistently sign the "Start-Up Log." The Ice Center utilizes a locally developed form called the Start-Up Log. For each cashier, these forms include places for the date, time, and any over/short in the start-up amount, cash register location, and spaces for both the cashier and supervisor to initial acknowledging the transfer of the start-up change fund at the beginning and end of a cashier's shift. The form has 33 lines and may cover several months of activity. As we reviewed the Start-Up Logs, we noted that the forms are not used on a regular basis. Some of the cashiers are more diligent in completing the log and getting a supervisors signature than others. However, over the course of several days and multiple cashiers, we found only two instances in which the cashier had completed the Open Till portion of the log that acknowledges receipt of the start-up change fund. In another instance, when the cashier noticed the auditor scrutinizing the log, he hurriedly completed the Open Till section and sought a supervisor's signature. The next time that cashier was on shift, the auditor noted that the log entry for that date had not been completed even though the cashier had been on duty for over an hour.

This Start-Up Log fulfills the requirements of Policy #1062, Section 2.4.2 and 2.7 which require the use of MPF Form 7 or 7a when transferring funds control from one individual to another. In fact, the Start-Up Log itself is very similar to the MPF Form 7. MPF Form 7 and MPF Form 7a are included as Attachments B and C.

The intermittent use of the Start-Up Log seems to be a product of lack of enforcement by supervisory staff. The start-up change fund is retrieved from the safe by the supervisor, but should not be transferred to the cashier without completing the Start-Up Log.

Without an accounting for the correct amount of start-up funds, the opening cash drawer balance may not be at the authorized amount. When the change fund is over or short at start-up, it is sure to be off at the end of the day.

RECOMMENDATION:

We recommend that the supervisors mandate the completion of the Start-Up Log before the change fund is released to the cashiers.

ACCOUNTS RECEIVABLE

The Ice Center rents ice time to various groups for their exclusive use. Some of the groups, such as the High School Hockey Association, use the time for practice and tournaments, while others, such as the Murray Silver Blades Figure Skating Club, utilize the time for their members sole use of the ice. The current rent rate is $160 per hour, billed in 15 minute increments.

At the end of each month, the bookkeeper reviewed the daily ice schedule for the month just completed and entered the date, start and stop times, total time, and total charge for the day into a detailed invoice. Since most of the groups have recurring weekly times, the detailed invoice will have 4 or 5 lines. The invoice also showed the monthly total due, the previous balance, any payment activity, interest on the unpaid balance (if any) and the total amount due. Payments for prior month's ice rental are generally due on or before the last day of the month following (January ice time, billed February 8, was due and payable by February 28).

When the invoices were completed, a copy was made and forwarded to the center director for approval. Upon approval, the invoices were mailed to the clients. When payments were received, they were rung into Sportsman under "Contract Ice." When the billing process was completed, the bookkeeper updated a handwritten ledger. This ledger had one sheet for each client and noted each billing date and amount, any interest charged, payments as they occurred and date of receipt, and current balance due. At the time of our audit (just after the January bills were prepared) the total of all accounts receivable was $14,779.51. Our review of the Accounts Receivable produced the following finding:

- **The current Accounts Receivable practice is not in compliance with Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection."**

As the bookkeeper described the procedures above, we noted the following areas in which the process was not in compliance with Policy #1220:

- ***Accepting new clients.***
- ***Determining payment due-dates and the interest rate charged to the client.***
- ***Generating monthly reports, including an aging report.***

We also noted that some clients were chronically late resulting in large past-due accounts.

Accepting new clients. When we examined the signed contracts for the groups that have open ice-rental accounts, we found that not all groups had a contract in place. Quasi-governmental agencies such as high schools or universities did not have signed contracts. In addition, the contract form used by the CIC did not include information required by Policy #1220. Specifically, the information requested on the Ice Rental Agreement did not include date of birth and driver license number. This form was developed in conjunction with the District Attorney's Office and was last modified June 15, 2005, about eighteen months before Policy # 1220 was implemented.

Policy #1220, Section 3.3.1, states, "*Before granting credit the County department or agency must obtain basic information from a patron. Therefore, the County department or agency must develop a credit application, contract form, or other similar form which requests basic patron information.*" Section 3.3.1.1 goes on to state the following, "*Basic information about the debtor such as name, address, telephone number, date of birth, and driver license number.*" should be included on the contract form.

Contracts are in place to facilitate collection in the event a patron does not pay, and to clearly set forth the terms and conditions of use. A contract is designed to protect the County's interest in the worst-case scenario, and for this reason is required each time credit is granted.

Determining payment due-dates and the interest rate charged to the client. While the current accounts receivable practices included many of the elements of Policy #1220, such as monthly invoices and an accounts receivable ledger, invoice due-dates and interest charged on past-due accounts were different than the stipulations of the policy. Current practice, as described above, is to show payments due at the end of the month in which services are billed (billed February 8, due February 29). Also, the current interest charged on past-due amounts is two percent (2%) per month.

Policy #1220, Section 4.2.2, states, "*Terms for payment of debts to the County shall be net 30 from invoice date (i.e., all payments are due to the County no later than 30 days after the date of the invoice).*" In Section 4.4, the Policy states, "*Payments received after the due date shall be allowed a two-day grace period, following which interest will be charged at 1 ½ percent per month (18 percent per annum) on the unpaid balance of the account.*"

Generating monthly reports, including an aging report. No aging schedule was prepared and, therefore, we had no evidence that management was fully aware of the age of some of the accounts. Neither was there any standardized approach to collecting past-due accounts, such as dunning letters, which would be triggered by the information on past due accounts presented in an aging report.

Policy #1220, Section 5.5, states, "*Aging information must be collected, maintained, reported and acted upon in a standardized and consistent manner. An aged analysis of accounts receivable ledger balances (aging schedule) shall be prepared each month.*"

Aging reports have been an ongoing issue. In our previous audit letter, dated May 7, 2003, we commented on the lack of an aging report. Included in the letter was the following recommendation: "*We recommend that accounts receivable be aged to expedite the process of tracking overdue customer accounts.*" When queried about the status of this recommendation for the end-of-year Annual Report of Internal Audits, management responded "Implemented. The Max Facility schedule software, recently purchased for all three County ice facilities, will provide this information automatically." The Max Facility software has yet to be installed at the County Ice Center. During our audit, CIC personnel told us that the software did not function as intended in tracking accounts receivable. Reportedly, this module did not work in an attempted test run at the Salt Lake City Sports and Steiner Aquatic Center.

Without the information provided on an aging report, management may be unaware of problems in collecting past-due accounts. The risk of non-payment grows with each month an invoice remains unpaid. A cursory review of the accounts receivable ledger revealed that one client had an outstanding balance in excess of $4,400 and went four months between payments. Another client took a year to pay off a balance of $1,080. Collection efforts are more effective if begun early. Early identification of collections problems is facilitated by producing a monthly aging report.

RECOMMENDATIONS:

1. We recommend that a signed contract be on file for every Ice Rental Agreement.

2. We recommend that due date and interest rate stated in Paragraph 2 of the current Ice Rental Agreement be modified to comply with Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection."

3. We recommend that accounts receivable be aged to expedite the process of tracking overdue customer accounts in compliance with Countywide Policy #1220.

4. We recommend that the Max Facility software vendor be contacted to resolve the issue of adequately tracking and aging accounts receivable, and that the accounts receivable module be installed and used if intended functionality is achieved.

Concessions

The County Ice Center has a concessions counter and several vending machines. Inventory is purchased from four contract vendors and a local warehouse store. Items are marked-up about 50 percent to a "sales friendly" amount (i.e. 75 cents versus 78 cents). Sales are rung into the Sportsman system under the "Concessions" classification. The concessions area has a cash register networked to the Sportsman system for peak sales times, but generally, sales are rung into the front desk cash register.

Our findings in the concession area are:

- **Inventories were not reconciled on a regular basis.**
- **Employee pricing resulted in a loss on each sale.**

Inventories were not reconciled on a regular basis. Each calendar quarter, within the first few days of the quarter, an inventory of all concessions items for sale is completed. When we reviewed this in February, 2007, all inventory count sheets for 2006 were complete and available. However, none of the inventory reconciliations for the year had been completed. That is to say, no action to complete the inventory process such as adding per-item prices and multiplying to determine the dollar amount of the total inventory on hand, or the profitability of the concessions area had been completed.

When CIC staff completed this activity and determined the metrics of profit, average markup (Profit ÷ Cost of Goods Sold) and profit margin (Profit ÷ Sales), the quarter-to-quarter performance fell dramatically from the first to the fourth quarter in 2006.

The performance of the concessions area is shown in the Table 1, below:

	First Quarter 1/4/2006	Second Quarter 4/3/2006	Third Quarter 6/26/2006	Fourth Quarter 10/1/2006
Beginning Inventory	2,104.98	1,979.06	2,320.88	2,953.66
Purchases	5,763.87	2,179.85	3,032.73	5,528.76
Total available for sale	7,868.85	4,158.91	5,353.61	8,482.42
Current Inventory	1,979.06	2,320.88	2,953.66	1,746.86
Cost of Goods Sold (COGS)	5,889.79	1,838.03	2,399.95	6,735.56
Sales (From Sportsman)	9,049.19	2,585.82	3,192.32	7,644.57
Profit (Sales less COGS)	3,159.40	747.79	792.37	909.01
Average Mark-up (Profit/COGS)	53.6%	40.7%	33.0%	13.5%
Profit Margin (Profit/Sales)	34.9%	28.9%	24.8%	11.9%

Table 1: ***Concessions Profit Margin fell each quarter in 2006.***

As is evident from Table 1, the Profit Margin from concessions sales fell from 34.9 percent in the first quarter of 2006 to 11.9 percent in the last quarter. At the same time the calculated markup sank from 53.6 percent to 13.5 percent. These changes could be due to any number of factors, from management decisions regarding markup percent and pricing, to inventory shrinkage. The key issue is not that the metrics changed, it is that management was not aware of these results until February 2007 when the reconciliations for all four quarters were completed.

Good business practice dictates that inventory reconciliation must be timely to be meaningful. In the absence of a perpetual inventory system, the manual counts are a vital part of inventory management, but a manual count is of no value unless the reconciliation is completed so that management can analyze the results.

Employee pricing resulted in a loss on each sale. As we discussed concessions procedures and pricing with the CIC Program Manager, we found that items were marked-up about 50 percent. There was some variance for rounding to make the items price out at even five-cent intervals. However, employees were allowed to purchase items from the concessions counter at one-half the marked price. This practice resulted in a loss on each employee sale. For instance, if an item cost $1.00 to purchase, the markup would be 50 cents, making the selling price $1.50. If an employee purchased this item, their price would be 75 cents, resulting in a loss of 25 cents on the item.

If CIC management intends to sell to its employees at a loss, that policy should be put into writing and approved by Recreation Division management. Otherwise, the employee pricing policy should be changed so that the CIC at least recoups its cost on concessions sales to employees.

RECOMMENDATIONS:

1. We recommend that concessions inventory reconciliation be completed quarterly and the results be reviewed by the center director.

2. We recommend that the employee pricing policy for concessions sales be reviewed and that sales to employees at least recoup the cost of the item sold.

Capital and Controlled Assets

We located all five Capital Assets listed on the AFIN0801, Capital Assets Report, and a selected sample of controlled assets listed on the Controlled Assets Inventory Log for the CIC. We were able to locate each asset in the sample.

We found that the controlled assets inventory was completed in April 2006, and that management of controlled assets complies with Countywide Policy #1125, “Safeguarding Property/Assets.” Recently acquired assets have been tagged and added to the Controlled Assets Inventory Log.

We believe that the Capital and Controlled Assets at the County Ice Center are being managed in accordance with the provisions of Policy # 1125 and commend CIC management for their efforts in this area.

Pro-shop Inventory

As part of the audit, we reviewed the Pro-shop inventory records for 2006. We also counted the inventory on hand in early March 2007, and performed our own reconciliation.

We found that the pro-shop inventory was adequately monitored and regularly reconciled. However, we did notice that some of the larger sized protective gear had been in back storage for a number of years as evidenced by prior-year inventory notations on the boxes. Shoulder pads, pants, elbow pads and shin pads in "Senior Large" and "Senior Medium" sizes had an "Our Cost" valuation of over $1,000.

Management indicated that this equipment was purchased as part of the "Start Smart" program. However, most of the participants in this program are younger, and the older participants tend to purchase their equipment from retail vendors.

While $1,000 is only a small portion of the $20,000 plus inventory, these items are taking up space and providing no benefit to the program. In addition, items stored for extended periods are susceptible to damage, to pilferage, or to becoming obsolete over time.

RECOMMENDATION:

We recommend that County Ice Center management consider ways to reduce the stock of slow-moving Pro-shop items.

We appreciate the cooperation and assistance we received from County Ice Center staff and trust that recommendations from our audit will lead to better and more efficient operations. If we can be of further assistance, please contact me.

Sincerely,

James B. Wightman, CPA
Director, Internal Audit Division

Cc: Paul Ross
John Barrenbrugge

CASH OVER/SHORT LOG

MPF Form 11

DIVISION ______________________________

MONTH/YEAR __________________________ EMPLOYEE _________________________

DAY	AMOUNT OVER/SHORT	INITIALS OF CASHIER
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
	ACCUMULATIVE OVER/(SHORT)	$ -

Approved by Agent Cashier__________________________

I have reviewed the above log for propriety and certify that any differences between cash receipted and deposited are listed above.

Supervisor's Signature _____________________________ Title __________________

Attachment A

SALT LAKE COUNTY

FUNDS TRANSFER LEDGER

MPF FORM 7

Date	Prepared by	Agency Employee	Amount of Chks/Cash	Total Amount	Time	Person Transferring Fund

MPF 7 (6/90)

Attachment B

Salt Lake County

FUND TRANSFER RECEIPT

DATE ______________ AGENCY ______________________________

NAME OF INDIVIDUAL TRANSFERRING FUNDS ______________________________

AMOUNT TRANSFERRED ______________________________

Loose Coins ______________

Currency ______________

Checks ______________

Total ______________

TRANSFERRED TO ______________________________

Signature Agency

mpf7A(8/90) Original-Depositing Agency Yellow-Courier Pink-Transferring Agency

Attachment C