

Salt Lake County Auditor's Office

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Dear Glen:

We recently completed a cash audit of the West Valley Acord Ice Center (Acord) that also included an examination of inventory procedures and of accounts receivable. A cash audit examines cash handling procedures to see whether Management of Public Funds (MPF), Countywide Policy #1062, is being followed. As part of the audit, we examined balancing and depositing procedures to reasonably ascertain whether all funds collected are in fact being deposited.

We reviewed inventory procedures to determine whether adequate controls are in place to ensure the integrity of pro shop, vending machine and concessions inventories. We also examined accounts receivable for adequate procedures that would ensure the timely collection of funds.

Yearly Acord cash collections total nearly \$500,000. Acord staff collects money for public skating time, group skating reservations, skate rental, concessions and vending machine sales, and pro-shop customer purchases.

Our letter addresses audit issues in two separate areas: cash handling and accounts receivable/inventories.

CASH HANDLING

Our findings:

- ! Accountability over cash collections is weak.
- ! More than one cashier works out of the same drawer.
- ! Large cash amounts designated as vending machine money are kept in the safe; deposits are sometimes untimely.

- ! Cash is collected and a receipt book is maintained on-site for a non-county club.
- ! A manual system is used for receipts which exceed \$200 a day.
- ! Checks are not restrictively endorsed when received.

Accountability over cash collections is weak. In reviewing cash receipting practices, we noted that Acord staff do not follow key sections of Countywide Policy 1062. Consequently, important internal controls are not in place. More specifically we found:

- The deposit is forced to agree to total receipt records.
- Check/cash composition errors occur one quarter of the time.
- Cash shortages and overages are not tracked or documented.
- No balancing form is used to document the cash count when closing out.
- Cashiers do not balance their cash drawers when closing out.

We examined 77 judgmentally-selected deposits from May 1, 1998 through April 30, 1999 and found that all 77 balanced perfectly to the McBee receipting system. Given that three to seven cashiers may be collecting money on any given day, a perfect balancing record is not possible.

We also examined 58 judgmentally-selected cash register “z-tapes” showing cash and check totals at each day’s close-out. All amounts deposited, except one, perfectly matched z-tape totals. The one that did not match was noted as a void, not an outage. Again, such a perfect balancing record is unlikely.

Forcing the deposit to perfectly match receipts is a serious problem that needs to be resolved as soon as possible. Perfect balancing records of this type could be used to deflect attention from unauthorized use of funds or inadequate cashier performance.

Acord bases its deposits on the handwritten McBee receipting system. Any cash register activity is transferred to the McBee system. Therefore, it was necessary to look at both the McBee system (for the 77 deposits noted above) and the cash register receipting system, as represented by the 58 z-tapes.

Although cash register collections matched z-tapes in total, cash/check composition disagreed in 14 cases, or 24 percent of the total. Funds could be diverted to personal use by systematically exchanging checks received for cash, creating cash/check composition errors. Therefore, it is important that transactions properly be keyed in to the cash register to avoid cash/check composition errors.

Shortages and overages do occur, but no over/short log is kept as required by MPF #1062. Section 2.5.3 requires that *All overages and shortages, regardless of the amount, must be recorded by the agency.* In addition, section 5.3.1.2 allows for two options in handling overages and shortages: 1) Add to or short the change fund. Therefore, *All deposits will be made intact,* or 2) Add to or short the deposit amount. Therefore, *Shortages will be withheld from the deposit to maintain the change fund at the authorized level.*

Because Acord ensures that deposits always perfectly match receipt records, these procedures have not been followed. Overages and shortages are not reflected in either the change fund or the deposit. How Acord adjusts any differences is not known.

When questioned, Acord personnel showed us a green zip bag that contained 99¢. They said overages were placed in the bag, and that shortages were resolved by taking money from this bag and placing it in the deposit. When asked how shortages were resolved if they exceeded the cash in the bag, Acord personnel were elusive, stating that they were “adjusted at the end of the month.”

Moreover, the green bag appeared subsequent to our initial cash count on the first day of the audit. This bag was not in the safe when we performed our cash count.

Balancing procedures are not documented using a county-approved balancing form that shows amounts in the drawer by each denomination and compares the total count to the z-tape or McBee receipt total. Therefore, it is not known what overages and shortages occurred. Also, because no balancing form is used, there is no record of who collected the cash. Therefore responsibility for overages and shortages cannot be assigned.

MPF #1062, section 3.7.4.2.3, addresses balancing procedures by stating, *Complete Daily Cash Balance report-two copies (MPF Form 3). Include with report all deposit slips, check tapes, receipts, cash register detail tape, and any other information pertinent to the day's collection totals.*

Currently, cashiers do not balance their own drawers. They count out the change fund and place the rest, theoretically representing collections, along with the z-tape, in a drop safe. One of the Acord staff then opens the safe and counts the money. However, each cashier should balance his own

drawer.

RECOMMENDATIONS:

1. *We recommend that the Acord Ice Center use designated balancing procedures that would compare cash counts to receipt totals on a balancing sheet.*
2. *We recommend that overages and shortages be recorded in an over/short log.*
3. *We recommend that overages and shortages be added to or deleted from the deposit or the change fund as preference determines.*
4. *We recommend that all cashiers balance their own cash drawers at the end of their shift using a balancing form that the cashier signs.*

More than one cashier works out of the same drawer. Consequently, it is not possible to hold employees accountable for cash outages. MPF #1062, section 2.10.1 states, *All...cashiers will have their own cash drawers unless deemed impossible or unnecessary by the Agency in consultation with the Fund Management Committee.*

RECOMMENDATION:

We recommend that only one cashier work out of the same cash drawer.

Large cash amounts designated as vending machine money are kept in the safe; deposits are sometimes untimely. Acord routinely keeps over \$200 in the safe in a money bag designated as vending machine money. We counted \$308.50 on the first day of the audit. No receipts, tapes or other detail of any kind accompanied this money. Several days later, the bag was still full of money. When asked about this, Acord responded that it needed to be deposited.

The purpose of keeping hundreds of unaccounted for dollars in the safe is not clear. Regardless of intent this money should be deposited immediately. It is not an established change fund. If another change fund is needed, Countywide Policies and Procedures #1203, Petty Cash and other Imprest Funds outlines the procedure for doing so.

In addition, deposits are late. Out of 77 deposits examined, 23 (30%) were deposited two or more days after collections were received. MPF #1062, section 3.8.1.1 states: *Receipts of \$250 or*

more (\$50 in cash and \$200 in checks) will be deposited on a daily basis. The deposits in question exceeded this threshold.

RECOMMENDATIONS:

- 1. We recommend excess cash maintained in the Acord safe in a zip bag and designated as "vending" money be deposited.*
- 2. We recommend that deposits be made daily when cash and check collections total at least \$250 (\$50 in cash and \$200 in checks).*

Cash is collected and a receipt book is maintained on-site for a non-county club. A conflict of interest exists whereby Acord employees collect money on behalf of a figure skating club. A receipt book for the club is kept in a drawer underneath the counter at Acord. The county employee who supervises cash handling and depositing is an officer in this club. Collecting cash for another non-county organization could risk the co-mingling of county funds with club funds.

During our cash count we found six miscellaneous envelopes containing \$117 in cash and \$55 in checks. Employees attributed most of this to money having been collected and held on behalf of the figure skating club. The director did not know the purpose of \$40 cash in an envelope on which was written the date "4-28-99."

RECOMMENDATION:

We recommend that Acord staff cease collecting and holding money on the premises for the ice skating club.

A manual system is used for receipts which exceed \$200 per day. This occurs at the Acord front desk, the only point where cash can be taken in at any time during regular business hours. All pro-shop customers are issued handwritten receipts for their purchases. Some ticket sales and payments by groups reserving ice rink time are all receipted with handwritten receipts.

MPF #1062, sections 2.3.4.8.2 and 2.3.4.8.3 state the following: *If total cash receipts are from \$250 to \$1000 per day, an off-line register with a locking cash drawer which produces a detail tape and double receipt tape is recommended...If total cash receipts exceed \$1000 per day, an on-line register...is recommended.* Average collections at Acord are \$1,347 per day.

Parks and Recreation is experimenting with an on-line program called "Sportsman" that has

been installed at Acord, but not used, and is being tested at the Marv Jensen Center. Sportsman would be useful to Acord since they collect nearly \$500,000 a year. The magnitude and variety of cash transactions, including admissions and concessions sales, calls for automation in the cash receipting function.

RECOMMENDATIONS:

- 1. We recommend that the Acord Ice Center eliminate the use of handwritten receipts and automate its receipting system.*
- 2. We recommend that the Sportsman software, or other reliable on-line cash handling software, be implemented at all points of sale/intake of money to improve cash accountability.*

Checks are not restrictively endorsed when received. MPF #1062, section 3.6.1 states: *As a rule, all checks and other negotiable instruments received by the ...Cashier will be made nonnegotiable as soon as possible after receipt.* Restrictive endorsement is accomplished by stamping the back of the check, "For deposit only, Salt Lake County Treasurer." Checks that are not immediately so stamped can be diverted to personal or unauthorized use.

RECOMMENDATION:

We recommend that all checks be restrictively endorsed as soon as they are received.

ACCOUNTS RECEIVABLE / INVENTORIES

Our findings:

- !** Some clients have not paid bills that are over 120 days old.
- !** Inventory procedures do not effectively document goods on hand.

Some clients have not paid bills that are over 120 days old. Outstanding accounts receivable over 120 days old total \$18,208, representing four percent of annual revenues. Of the \$18,208, \$11,721 was billed last year, 1998. Acord has a list of 11 clients that it bills for use of the ice rink or other rooms in the building. All of the outstanding receivables mentioned previously are from three of these clients. One has an outstanding balance of \$11,658, another one has a balance of

\$9,896, and the third owes \$11,709 to Acord. The total of these three, \$33,263, is all more than 60 days past due.

Acord issued a letter informing its clients that a two percent finance charge would be assessed if they did not pay. Acord assessed this charge as of June 1, 1999.

In addition, Acord does not have written policies and procedures of any kind, including those related to accounts receivable. Written policies and procedures provide the basis for actions taken by management, actions which otherwise may be haphazard or inconsistent. In the case of receivables at Acord, no formal structure is in place to address the collection of excessively overdue accounts.

RECOMMENDATIONS:

- 1. We recommend that Acord staff continue assessing the two percent per month finance charge as an incentive to patrons to pay amounts owed on a timely basis.*
- 2. We recommend that Acord management formulate written policies and procedures that address accounts receivable.*

Inventory procedures do not effectively document goods on hand. There is no mechanism in place to verify the accuracy of vending machine collections. Acord does not show any analysis of vending machine sales to beginning and ending inventory items in the machines that would tell whether all collections and goods are properly accounted for. Beginning vending machine inventory plus additions minus ending inventory should equal the number of goods sold. Multiplying the number of these goods by their sales price should equal what is reported as vending machine revenue. This analysis is not being performed.

Neither did we find any documentation that would support any similar type documentation of inventory in concessions and the pro shop. Consequently, merchandise and food items could be diverted to unauthorized use without detection.

The director at Acord stated that pro shop counts of inventory are conducted quarterly. Parks and Recreation administration requires concessions and vending machine inventories once a month. Acord reports doing a count once a month, but we waited two weeks to get their most recent count sheets.

The Sportsman software package, which is not yet in use at Acord, reportedly has the capability of reporting specific items being sold and deducting them from inventory. Implementation of this software will benefit pro-shop inventories.

RECOMMENDATIONS:

1. *We recommend that vending machine sales be verified periodically by documenting a comparison of beginning and ending item counts, and additions, to total vending machine sales.*
2. *We recommend that Sportsman, or other software with adequate inventory monitoring capabilities, be implemented.*
3. *For pro-shop and concessions operations we recommend that documented comparisons be made of beginning and ending item counts to sales and documented to determine whether all goods are accounted for, taking into consideration the variability in quantities for certain types of goods sold.*

We appreciate the friendly, responsive and dedicated staff at the West Valley Acord Ice Center. They willingly listened to suggestions and asked about new and improved ways of handling cash and inventories.

The recommendations we have made in this letter will help improve operations and ensure the safeguarding of county assets. If we can be of further assistance to you or the Acord Ice Center staff, please give me a call.

Sincerely,

David L. Beck
Chief Deputy

cc: Paul Ross
John Barenbrugge
Bruce Henderson