



SALT LAKE COUNTY AUDITOR'S OFFICE

JEFF HATCH
Auditor

April 15, 2008

Darrin Casper, Chief Financial Officer
Javaid Majid, Associate Fiscal Administrator
Salt Lake County Mayor Operations
2001 S. State Street N4100
Salt Lake City, UT 84190

RE: Stat and General Fund, 5000

Dear Darrin and Javaid:

We recently completed an audit of the Stat and General Fund. We reviewed the following areas:

- Budget process
- Payment approval process
- Expenditure types
- Expenditure trends

Our review focused on Fund 110, General Fund, organization number 5000, Stat and General Fund. Our audit criteria included County Ordinance 2.95, "County Budget Process," and Countywide Policy #1200, "Contributions/Waivers." The Stat and General Fund has no written procedures regarding payment of invoices, but measures are in place to ensure invoices are paid correctly and timely.

The lead auditor was Celestia Cragun. Larry Decker had administrative oversight over the audit.

Our work was designed to provide reasonable, but not absolute, assurance that budget and expenditures were valid, accurate, and appropriate according to prescribed Countywide policies. We reviewed a statistically significant sample of payments. There is a risk that items not selected in our sample could be out of compliance with established policies and procedures.

The Stat and General Fund is under management of Mayor Operations and is administered by an “associate fiscal administrator” who prepares the initial budget and approves expenditures for that organization. We have no exceptions to report to compliance of the Stat and General Fund and therefore our report describes the organization and process of budget and payment of expenditures from that fund. The following are the findings of our report.

- ***The budget process for the Stat and General Fund followed prescribed steps as directed by the Budget Division of the Auditor’s Office.***
- ***Payments from the Stat and General Fund were made in accordance with the AMS Advantage System (AMS).***
- ***Changes were made to the Stat and General Fund in 2007 to transfer certain types of contributions to other funds.***
- ***Payments for subscriptions and memberships have increased.***
- ***Contributions were made in accordance with Countywide Policy #1200 “Contributions/ Waivers.”***
- ***Warrants were issued to legitimate vendors and were approved properly.***

The budget process for the Stat and General Fund followed prescribed steps as directed by the Budget Division of the Auditor’s Office. The associate fiscal administrator in Mayor Operations with fiscal oversight of the Stat and General Fund prepares the budget in accordance with the linear budgeting process. The flowchart in Appendix A illustrates the process.

The budget process begins with a review of current projects and programs to determine which projects will continue into the next year. Fiscal personnel in County divisions that budget expenditures through the Stat and General Fund provide information to the associate fiscal administrator on new initiatives planned for their division or department. If a division requests an increase over the previous year, that division must complete a New Program or Program Expansion form defining the additional needs and the reason for the increase, with approval from the appropriate managers or directors. These documents accompany the budget through the approval process, and the Council and the Mayor use these documents to make budget decisions. After new initiatives are added to the continuing

programs, the preliminary budget is presented in spreadsheet form to the Mayor's Chief Administrative Officer and the Mayor's Chief Financial Officer. Each item in the Stat and General budget is reviewed with changes, additions, or deletions made at that time. Subsequent to that meeting, the associate fiscal administrator enters the budget into BRASS along with expected revenue figures. The document entered into BRASS becomes the Budget Request.

The associate fiscal administrator records the Budget Request into BRASS and the Auditor's office reviews the entry and makes necessary adjustments to the figures, including revenue projections by the economic analyst. At completion of this step, the Budget Director presents a Tentative Budget to the Auditor, which is transmitted to the Council in the Countywide Tentative Budget. The Mayor then reviews the budget, makes decisions and changes, and presents a Proposed Budget to the Council. The Council deliberates on the Proposed Budget and makes additional decisions and changes. At this point, the Mayor's staff must ensure that the fund balance is sufficient to cover expenditures and reserve requirements. The current internal policy on fund balances requires a 10 percent fund balance for the General Fund (110) and 5 percent for all other funds. This required fund balance is important to maintain the AAA Bond rating that Salt Lake County has benefited from for many years.

The outcome after the Mayor and Council have made their adjustments is the Recommended Budget. The Recommended Budget is publicly displayed for citizen review and comment. If the Recommended Budget will result in a tax increase for the citizens of the County, the County must publish an ad in local newspapers and hold a public adoption meeting where citizens can comment on the Recommended Budget. When public input is complete, the Mayor can approve or veto the Recommended Budget. If the Mayor vetoes the budget, the Council has the option of overriding the veto if the majority of the Council votes to pass the Recommended Budget. The Council can also choose to compromise with the Mayor. After citizens have an opportunity to comment on the budget and Council approves it, it becomes the Adopted Budget and the budget process concludes. If, however, emergencies arise, the Council may make modifications to the budget by interim, June, or year-end adjustments.

Payments from the Stat and General Fund were made in accordance with the AMS Advantage System (AMS). All payments made from the Stat and General Fund, and all funds in general, have the following steps in the payment process, as illustrated in Appendix B:

- Initiate
- Authorize
- Enter into AMS
- Approve (or review) in AMS
- Pay

The payee organization or individual receiving payments from the Stat and General Fund, initiates the payment process by preparing an invoice or letter and sending it to any of the following staff: Council, Mayor Administration, Mayor Operations, other Mayor departments, and other elected officials. For example, a consultant must submit an invoice before being paid. Not all payments are made by issuing a warrant. Some payments are made through journal voucher transfer of funds between divisions.

Each invoice must be authorized for payment by one of the fiscal staff who has the authority to do so. Currently, staff allowed to authorize payments includes the Chief Administrative Officer, Chief Financial Officer, the four fiscal administrators in Mayor Operations, and four fiscal administrators in departments under Mayor's administration. One of these authorized staff indicates approval by writing "Okay to pay" along with their initials and date and the account number from which the payment will be made. The paperwork then goes to one of two employees authorized to input the information into AMS.

Before entering into AMS, each document must have "Okay to pay", the account number, and the initials of the person authorizing the payment. Once a payment is entered, AMS assigns a Payment Voucher number.

A payment entered into AMS is approved (or reviewed) in AMS by an authorized and designated employee. One employee enters the payment amount and another employee authorizes the payment, thereby achieving proper segregation of duties. Four administrators in Mayor Operations are authorized to approve payments in the system. To approve a transaction, the system requires completion of certain steps. The approving person reviews the dollar amount, the account code, and the vendor to be certain that information in the system matches the initial authorization. Then, approval is completed by "taking" the task in AMS and clicking on the approval button. GAX payments, or general expenditures that have been pre-approved for payment by the Mayor, do not require "taking" the task for approval in the AMS system but are "reviewed" in the system. The reviewer initials and dates the backup documentation to verify their review in the AMS system.

Following payment authorization, entering information into AMS, and approval or review of the invoice in AMS, documentation goes to the Accounts Payable section of the Auditor's office (AP). AP receives additional notice in AMS that payments are ready to proceed, reviews all backup documentation, and approves payment. After the Auditor's approval is in the system, a warrant is issued and a Warrant Register is printed. Signatures must be obtained from authorized employees in the Mayor's Office, the Auditor's Office, the Clerk's Office, and the Treasurer's Office before checks are released. This provides a final verification that the payment is valid and funds are budgeted for it.

Changes were made to the Stat and General Fund in 2007 to transfer certain types of contributions to other funds. In 2007, expenditures previously categorized in the Stat and General Fund were moved to organizations that more clearly reflected the purpose of those expenditures. The most notable was the move of indigent legal expenditures to Human Services oversight. By State statute, the County is required to provide legal and mental health assistance to citizens in the legal system who cannot afford it for themselves. The expenditures made to attorneys and mental health personnel for indigent citizens previously were the largest expenditures in the Stat and General Fund. In 2007, the Council decided to move indigent charges (object codes 4540, 4541, 4542, and 4544) in the Stat and General Fund to another organization (2900 - Indigent Legal Services) and give oversight to Human Services.

Another change made in 2007 moved object code 6421, Overhead Cost Elimination, to a revenue account, object code 3971, Indirect Cost. As a contra expense item, had object code 6421 remained in the Stat and General Fund after moving indigent charges to another organization, the result would have been a negative balance. The outcome of this change matched the indirect cost recovery to Org 2900 – Indigent Legal Services charges.

The final significant change made in 2007 was to move contributions made to The Road Home (formerly Traveler's Aid), from the Stat and General Fund to Community Resources and Development (120-200-2710). Again, the Council determined that Community Resources and Development would better serve oversight of this expenditure.

As we completed our audit work of the Stat and General Fund, we performed a cursory review of certain related funds. One of these was Org 5002 in the General Fund (110). We noted that in 2007, a one-time donation of \$3,500,000 from Org 5002 was made to the Grant Tower Project to move the railroad tracks

and make room for TRAX in Salt Lake City. According to an agreement between Salt Lake City and the Union Pacific Railroad, the Westside Railroad Realignment Project would straighten the Grant Tower railroad track curve and remove railroad tracks near 900 South Street and on Folsom Street. This would create a quiet zone where train whistles would not have to sound at railroad crossings. The Utah Legislature authorized a one-time allowance of the transportation sales tax collected by Salt Lake County for this purpose. While we have no related finding, we make this observation of the \$3,500,000 expenditure as a matter of information.

Payments for subscriptions and memberships have increased.

Although the amount spent on membership to the Utah Association of Counties and the Salt Lake Area Chamber of Commerce has remained approximately the same, the County has diversified significantly its membership in various governmental associations, councils, and chambers of commerce throughout the County, especially in 2007. Since 2003, the number of individual governmental organizations increased from 12 to 22. Table 1 below shows membership costs for the last five years.

MEMBERSHIP COSTS IN ASSOCIATIONS, COUNCILS, AND CHAMBERS OF COMMERCE - TOP FIVE									
	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007
UTAH ASSOCIATION OF COUNTIES	\$277,172	0.1%	\$277,462	-5.0%	\$263,711	0.3%	\$264,396	-1.6%	\$260,093
WASATCH FRONT REGIONAL COUNCIL		--	\$53,076	5.0%	\$55,730	24.4%	\$69,341	-3.6%	\$66,841
SALT LAKE AREA CHAMBER	\$50,000	--	\$50,000	--	\$50,000	--	\$50,000	-20.0%	\$40,000
NATIONAL ASSOCIATION OF COUNTIES	\$14,284	2.8%	\$14,684	2.8%	\$15,095	2.8%	\$15,518	15.1%	\$17,865
SALT LAKE COUNTY COUNCIL OF GOVERNMENTS	\$19,565	-100.0%		--	\$19,782	-26.5%	\$14,540	7.7%	\$15,666
ALL OTHER ORGS	\$7,620	284.3%	\$29,285	-73.5%	\$7,775	303.4%	\$31,363	120.0%	\$68,983
TOTAL MEMBERSHIPS	\$368,641	15.2%	\$424,507	-2.9%	\$412,093	8.0%	\$445,159	5.5%	\$469,449

Note: Others organizations are: Chamber East, Chamber West, County Executives of America, Draper, East Valley, GFOA, Holladay, Latin-American, Magna, Midvale, Midvalley, Murray, Pacific Islander, Sandy, South Salt Lake, South Jordan, Southwest Valley, Utah Asian, Utah Black, Utah Hispanic, West Jordan.

Table 1. Memberships in Chambers of Commerce increased from 2003 to 2007.

Contributions were made in accordance with Countywide Policy #1200 “Contributions/Waivers.” The budget provides for contributions to charitable organizations in accordance with Countywide Policy #1200. Contributions are made out of various funds including the Stat and General Fund. Guidelines require that all contributions must serve a valid public purpose and that requesting organizations not gain commercially for the contribution.

Table 2 below illustrates the 6510 Contribution line-item organizations that have received \$100,000 or more in the past five years.

CONTRIBUTIONS TOTALING \$100,000 OR MORE FOR 2003 THROUGH 2007										
VENDOR	2003	% Change	2004	% Change	2005	% Change	2006	% Change	2007	Total
THE ROAD HOME	\$325,000	0.0%	\$325,000	7.7%	\$350,000	--	\$350,000	-100.0%		\$1,350,000
WEST VALLEY CITY	\$100,000	0.0%	\$100,000	--	\$100,000	--	\$100,000	--	\$100,000	\$500,000
UTAH SPORTS COMMISSION		--		--	\$50,000	--	\$50,000	120.0%	\$110,000	\$210,000
MIDVALE CITY		--		--	\$22,500	200.0%	\$67,500	66.7%	\$112,500	\$202,500
DRAPER CITY-Fire Prevention Corner Canyon		--		--		--	\$100,000	--	\$100,000	\$200,000
MURRAY CITY CORP		--	\$60,000	-33.3%	\$40,000	--	\$40,000	--	\$40,000	\$180,000
SOLITUDE IMPROVEMENT DISTRICT	\$31,904	-0.3%	\$31,811	-0.3%	\$31,703	--	\$31,703	-11.6%	\$28,016	\$155,137
AND JUSTICE FOR ALL	\$125,000	-100.0%		--		--		--	\$25,000	\$150,000
JORDAN VALLEY WATER CONSERVANCY		--		--		--		--	\$150,000	\$150,000
USDA FOREST SERVICE		--	\$40,000	-50.0%	\$20,000	25.0%	\$25,000	--	\$25,000	\$110,000
UNITED WAY OF THE GREAT SALT		--	\$50,000	100.0%		--		--	\$55,300	\$105,300
THE LEONARDO		--		--		--	\$100,000	-100.0%		\$100,000
OTHER CONTRIBUTIONS	\$111,691	-75.4%	\$27,500	-76.4%	\$6,500	4069.0%	\$270,982	-16.5%	\$226,367	\$643,040
	\$693,595	-8.5%	\$634,311	-2.1%	\$620,703	82.9%	\$1,135,185	-14.4%	\$972,183	

Note: The Leonardo was budgeted to receive \$400,000 in 2007 but the amount was rolled over to 2008 for capital funds.

Table 2. Contributions reached their peak in 2006, and then decreased.

We reviewed “Contributions Object 6510” for 2007 to determine if the amount adopted in the budget was used as approved. In that year, we found 19 line items approved with 11 paid as approved. Two organizations asked for less than the amount approved and the remaining amount was not carried over to the next year. One organization did not receive the entire amount approved, but the remaining funds were encumbered for the next year. Incomplete projects delayed another three payments. Those projects will receive the approved amounts when completed. The remaining two allotments required proof of matching funds prior to release of County contributions.

Each year, the budget allows for an amount in contributions to be determined by the Mayor. For the year 2007, there was \$20,000 in funds available for contributions from the Stat and General Fund of which \$16,500 had been

requested by various organizations by the end of the year. The money budgeted for a discretionary contribution that is not spent is returned to the Stat and General Fund. Each request for a portion of this allowance must be accompanied by a requesting form and be presented to the Council for approval. In addition to the \$20,000 discretionary amount, other sometimes-larger amounts are budgeted on a case-by-case basis.

There is no written policy for authorizing payments out of the Stat and General Fund, but the office has a procedure manual prepared by the fiscal coordinator to train new employees in the process. The people responsible for purchasing goods and services are given detailed instructions on entering the requests and getting approval throughout the process. These instructions are compiled into a binder for reference.

There are checks and balances with personnel from Mayor's Administration, Mayor's Operations, Council, and the Auditor's Office that serve as safeguards to the process to help guard against improper payments. For example, the person who enters the information into the system is not allowed to approve the payment.

Warrants were issued to legitimate vendors and were approved properly. We reviewed expenditures from Org 5000, Stat and General Fund and verified addresses on 182 vendors from 2003 to 2007. We found current addresses or websites for all but three of the 182 vendors by researching the current phone book, the Department of Commerce Business Entity Search, and websites. The three vendors for which we could not find current addresses received payment in 2003. Two of the three vendors were community councils that most likely were incorporated into other community councils or chambers of commerce. The remaining vendor was licensed by the State of Utah in 2003, but the license has since expired. Backup for those warrants were destroyed as records need only be kept for three years. We have no reason to believe that any of the three vendors were not legitimate. Additionally, we researched a statistically random sample of 30 warrants issued in 2007 and found backup to each warrant appropriately approved and containing initials and copies of approval documents for each warrant.

Darrin Casper
Javaid Majid
April 15, 2008
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In closing, we express appreciation to the fiscal staff in Mayor's Operations. They were most helpful and prompt in responding to all our requests. We trust that our audit has provided greater insight into the operation of the Stat and General Fund and provided additional focus to commit to its operation in accordance with Countywide policies.

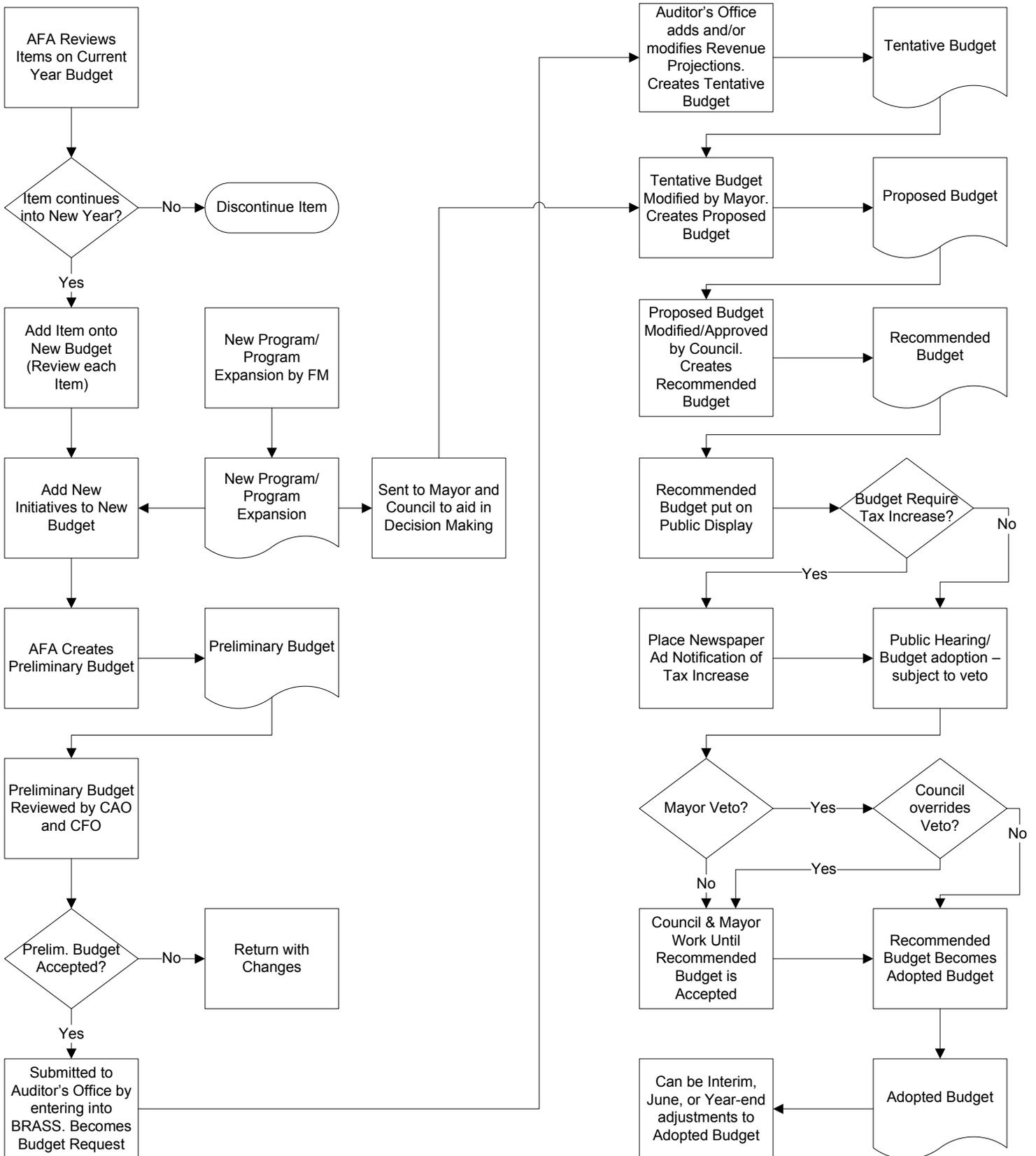
Sincerely,

James B. Wightman, CPA
Director of Internal Audit

cc: Greg Folta
Ann Stoddard

STATUTORY & GENERAL FUND

BUDGET PROCESS

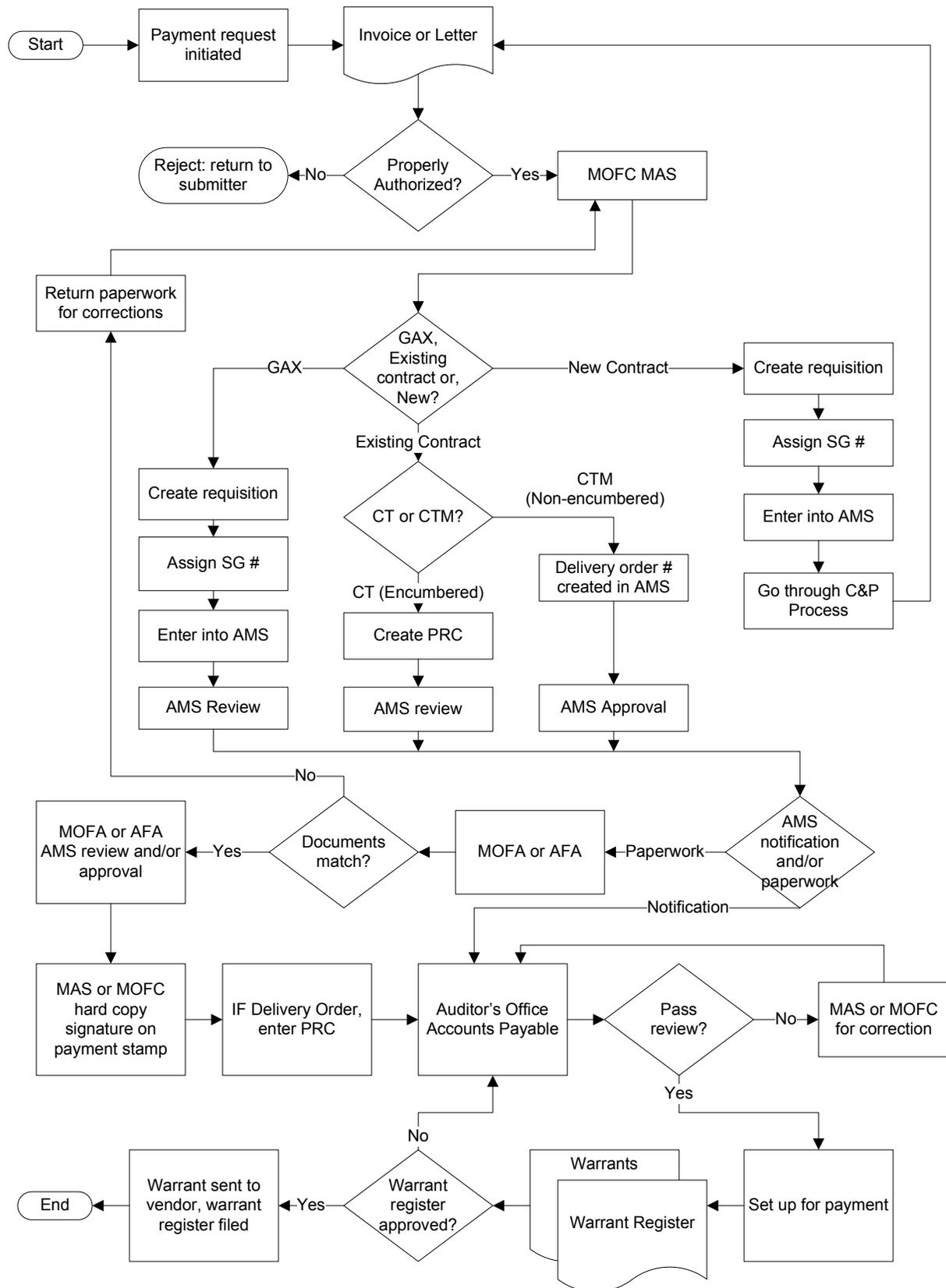


STAT AND GENERAL BUDGET PROCESS

1. Associate Fiscal Administrator (AFA) reviews items on current year budget
2. Does the item continue into new year:
 - a. Yes: Continue item onto new year budget
 - b. No: Discontinue item
3. Add new initiatives submitted by departments or others
 - a. New Program/Program Expansion completed by fiscal managers of other divisions with Stat & General expenditures
 - b. New Program/Program Expansion document goes to Mayor and Council to assist with budget decisions
4. Create Preliminary Budget in Excel Spreadsheet
 - a. Preliminary Budget spreadsheet
5. Submit Preliminary Budget for review by Chief Administrative Officer (CAO) and Chief Financial Officer (CFO)
6. Accept/Reject Decision
 - a. Yes: Go to Step 7
 - b. No: Return budget to AFA with instructions for revision, Return to step 4
7. Preliminary Budget submitted to Auditor's Office by entering it into BRASS. Becomes Budget Request
8. Auditor's Office adds and/or modifies Revenue Projections. Document called Tentative Budget presented to Council by Management and Budget Division Administrator
 - a. Tentative Budget
9. Tentative Budget sent to Mayor for review and modification. This budget rendition is called the Proposed Budget.
 - a. Proposed Budget
10. The Proposed Budget submitted to County Council, for further review and modification or approval. This budget rendition is called the Recommended Budget.
 - a. Recommended Budget
11. The Recommended Budget put on public display (copies in Auditor's Office)
12. Will Recommended Budget require a tax increase?
 - a. Yes: The County must place an ad in the newspaper. Continue to Step 13
 - i. Newspaper Ad Notifying of tax increase
 - b. No: Continue to Step 13
13. Recommended Budget is subject of a public adoption meeting where public can comment
14. The Mayor can veto the Recommended Budget
 - a. Veto: Go to Step 16
 - b. No Veto: Recommended Budget Accepted, Continue to Step 18
15. Council Votes to override veto
 - a. Yes: Recommended Budget Accepted, Go to Step 18
 - b. No: Go to Step 17
16. Council and Mayor work out budget differences until accepted by sufficient number
17. Recommended Budget becomes Adopted Budget
 - a. Adopted Budget
18. There can be interim, June, or year-end adjustments to the Adopted Budget

STATUTORY & GENERAL FUND

PAYMENT PROCESS



STAT AND GENERAL PAYMENT PROCESS

1. Payment is initiated by invoice or letter.
 - a. Invoice or Letter.
2. Invoice or Letter is reviewed for authorization. Primary level of authorization is Chief Administrative Officer (CAO), Chief Financial Officer (CFO), Mayor Operations Fiscal Administrator (MOFA), Associate Fiscal Administrator (AFA), and Department Fiscal Administrators (DFA). The following criteria are used to determine authorization: Is it appropriate, is money budgeted, is money requested, and is amount within the budget.
 - a. Yes. Write "OK to pay", write account number, initial and date, send to Mayor Administrative Secretary (MAS) or Mayor Operations Fiscal Coordinator (MOFC).
 - b. No: Reject – Return invoice or letter to submitter with explanation for rejection.
3. How to process after authorized:
 - a. GAX payment?
 - i. Yes. Send to the MAS or MOFC to be entered into the Purchasing System.
 - a. Create requisition
 - b. Assign SG number
 - c. Enter into AMS
 - d. AMS review and hard copy signature
 - e. To Accounts Payable (AP) for payment
 - b. Existing contract: Create either CT (does encumber funds) or CTM (does not encumber funds)
 - i. CT:
 - a. Create PRC (payment request)
 - b. AMS review and hard copy signature
 - c. To AP for payment
 - ii. CTM
 - a. Delivery Order created in AMS
 - b. AMS review and hard copy signature
 - c. PRC created
 - d. To A/P for payment
 - c. New contract:
 - i. Create a requisition
 - ii. Assign a SG number
 - iii. Enter into AMS
 - iv. Go through Contract & Procurement Process
 - v. Once fully executed follow as for existing contract
4. Paperwork is forwarded to MOFA, or AFA. MOFA or AFA compares paperwork to AMS entry. Do the following match: Dollar Amount, Accounting Code, Vendor Information.

5. Do Documents Match?
 - i. Yes: Initial document stamp, Return paperwork to MAS or MOFC, Is Approval required in AMS? (Not required for GAX items or previously encumbered contracts)
 - a. Yes: "Take Task" and click "Approve"
 - b. No: Return Paperwork to be corrected and resubmitted. Repeat Step 5 until approved.
 - ii. Paperwork and AMS notification are forwarded to AP. AP reviews for obvious errors. If OK:
 - a. Yes: Set up for payment
 - b. No: Return to MAS or MOFC to be corrected and resubmitted – return to Step 5 until approved.
 - iii. Warrant Register is printed, which may be the day following set up for payment, but is not automatic. Warrant Register delivered for signature to Mayor's Office, Auditor's Office, Clerk's Office, and Treasurer's Office.
 - a. Warrant Register
 - iv. Signers review. If OK:
 - a. Yes. Sign Warrant Register, return to AP. Go to Step 6.
 - b. No: Return unsigned Warrant Register
 - i. Depending on error, paperwork is sent back to appropriate person to be corrected and resubmitted.
6. Auditor's Office sends warrant to Vendor, Files Warrant Register. End of process.