# SALT LAKE COUNTY AUDITOR'S OFFICE

**JEFF HATCH**
*AUDITOR*


December 5, 2008

Gary Edwards, M.S., Director
Salt Lake Valley Health Department
2001 South State Street, #S2500
Salt Lake City, UT 84190

Re: Audit of South East Public Health Center

Dear Gary:

We recently completed a limited scope audit of the South East Public Health Center (Health Center). The audit's primary focus was the period from September 1, 2007 to August 31, 2008. During our examination, we reviewed cash receipting and depositing, capital and controlled assets, and petty cash and change funds.

For each of these areas, we examined internal controls and procedures in place to determine compliance with Countywide policies and Salt Lake Valley Health Department (SLVHD) cash handling standards pertaining to the areas of our examination. Our work at the Health Center was designed to provide reasonable, but not absolute, assurance that the system of internal controls was adequate, records were current, and daily transactions were valid. During our review, we noted some cash handling procedures which could be improved. In addition, some improvements regarding management of controlled assets are recommended.

## CASH HANDLING AND DEPOSITING

Our audit included examining cash handling procedures to determine whether Countywide Policy #1062, "Management of Public Funds," was applied. We counted all funds on the premises, including cash receipts not yet deposited, the Change Fund, and the Petty Cash Fund. Collections balanced to the Cash Drawer Balance Listings and the Vital Records Clerk Report. Petty Cash and Change Funds balanced to their authorized limits, as recorded on the Salt Lake County Petty Cash and Other Imprest Accounts Report. We also reviewed a sample of deposits from the past twelve months, and reconciled these deposits to bank statements on file.

To review cash handling and depositing, we selected a statistically-valid, random-sample of deposits from September 1, 2007 to August 30, 2008. We discovered the following during our examination for which we have made recommendations.

- ***Voided transactions were not always documented and reviewed properly.***
- ***The Health Center's Petty Cash Fund was too large for the level of actual use.***

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**Voided transactions were not always documented and reviewed properly.** On the Health Center's computerized receipting system, a cashier is able to correct errors in the amount charged to a client, the type of payment tendered, or the service codes that were recorded for a transaction. The original transaction is cancelled-out and the cashier is able to re-enter the corrected information into the system. When this occurs, a "RE-ENT" entry appears on the cashier's daily Cash Drawer Balance Listing. A "RE-ENT" transaction essentially allows a cashier to void or cancel-out a prior client transaction and re-enter another transaction using the same document (receipt) number.

During our review of 60 randomly selected deposits, we noted 23 "RE-ENT" transactions. The majority of the "RE-ENT" entries, 13 of 23, were followed by a correcting entry where the payment type and amount did not change from the previous cancelled-out entry. The payment type that was tendered for the transaction was changed on 5 of the "RE-ENT" transactions. The original transactions for 2 of the "RE-ENT" entries were each followed by a correcting entry that increased the amount charged to the client, and there were 3 "RE-ENT" entries followed by a correcting entry that decreased the amount charged to the client. The Health Center's Office Manager stated that a lack of attention to detail was the main reason for a cashier to process a "RE-ENT" transaction. Entering the wrong payment type, the wrong vaccination code, or accidentally processing a duplicate transaction when inquiring about client information in the system, were all common examples for the need to enter a "RE-ENT" to correct a previous transaction.

Countywide Policy #1062, Section 3.5.2.2, states:

> *"When it is necessary to void a receipt, all copies will be marked "void", including the original (customer) copy, if available. The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void."*

A written explanation and supervisor's signature, in addition to the cashier's signature, is required on each void slip to provide assurance that the transaction reversal was legitimate.

SLVHD Cash Handling (Fiscal) Operating Standards 2006, Section 5.3, "Voids," states:

> *"A void slip should be completed when a cash transaction error has occurred. A supervisor or designee signature is required on all voids.*"

Voided transactions are a major area of concern with respect to employee theft and mismanagement of funds. Without proper supervisory review of "RE-ENT"

transactions, there is a lack of internal control to mitigate the risk of a valid transaction being voided. Void slips are a way to alert management to the reversal of cash transactions and to help prevent misappropriations of funds.

During an interview with Health Department finance personnel, it was determined that current cashiering practices at the Health Center require a void slip to be completed only if the corrected cash transaction results in a decrease (refund) in the amount charged to the client. In their view, a void slip is not necessary if the "RE-ENT" transaction is followed by a correcting entry that involves any of the following:

- An increase in the amount charged to the client
- A change in payment type tendered
- A correction to a service code

Due to various functions available on the Health Center's computerized receipting system, additional cashier training would be beneficial for employees who are consistently using the "RE-ENT" operation to inquire about client information, or to make corrections to transactions.

Since current cashiering practices at the Health Center do not require that void slips be completed on all "RE-ENT" transactions, there is a risk that cashiers with a working knowledge of the system could manipulate transactions to their benefit. There are three factors that are present in every situation of fraud: motivation, rationalization, and opportunity. The lack of management oversight of "RE-ENT" transactions could provide an opportunity for a Health Center employee to process a fraudulent transaction. Specific examples might include altering a cash transaction so that the "RE-ENT" entry reduces the amount charged to a client and the employee could misappropriate the cash difference between the original transaction and the "corrected" transaction. Or, a change in payment type followed by a voided transaction could indicate that a cashier has accepted a fraudulent check in return for cash.

The key to fraud deterrence is to remove the three factors that contribute to the situation of fraud; financial pressure, opportunity, and rationalization. Of the three factors, opportunity is most affected by a strong system of internal controls. Countywide policy seeks to establish strong internal controls through proper documentation and supervisory review of all voided transactions. It is our view that the current Health Center practice of not requiring void slips for certain categories of "RE-ENT" transactions could present an opportunity for a SLVHD employee to commit fraud, and should be reconsidered. Best practices dictate that at a minimum, a supervisor should review each "RE-ENT" transaction to ensure that the transaction was appropriate and that voided transactions are properly documented according to Countywide Policy #1062 and SLVHD Cash Handling (Fiscal) Operating Standards 2006.

**RECOMMENDATION:**

***A supervisor should review all "RE-ENT" transactions on each cashier's daily Cash Drawer Balance Listing. A written explanation should be provided on all voided transactions and both the cashier and a supervisor should sign the void as evidence of review and approval. Also, the Health Department's practice of not completing void slips for certain categories of "RE-ENT" transactions should be reconsidered.***

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**The Health Center's Petty Cash Fund was too large for the level of actual use.** In addition to an unannounced cash count, we reviewed Petty Cash disbursements and found that they were appropriate and within the amount allowed by Countywide Policy #1203, "Petty Cash and Other Imprest Funds." Taking into account the cash on hand, Petty Cash vouchers, and the current balance in the Imprest Account check register, we found that the Petty Cash Fund balanced to its authorized amount. In addition, proper documentation for each purchase was included with the vouchers.

The Health Center replenished their Petty Cash account twice in 2006 and only once in 2007. Replenishment requests for the fund, with a currently authorized balance of $500, were $37.58 and $97.69 in 2006 and $242.95 in 2007.

Countywide Policy #1203, Section 3.7, states,

> *"The amount requested shall provide adequate operating funds for approximately three months."*

Because of the underutilization, a portion of the fund should be returned to the Auditor's Office, to allow for the earning of interest, or appropriation to other areas of need. Sound cash management practices require that funds be used with specific purposes in mind instead of remaining idle in Petty Cash accounts.

**RECOMMENDATION:**

***The Petty Cash Fund balance should be reviewed and reduced to a level more appropriate to the needs of the Health Center.***

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## CAPITAL AND CONTROLLED ASSETS

A capital asset is an individual item owned by the County that meets the criteria for capitalization. Currently, the capitalization threshold is $5,000. A controlled asset is an item having a cost of $100 or greater, but less than the current capitalization threshold, and which is sensitive to conversion to personal use. However, personal communication equipment, such as a cell phone or PDA, is considered a controlled asset regardless of the cost of the individual item.

We examined a statistically-valid, random-sample of capital and controlled assets to verify their existence and location, and to determine if the Health Center complies with Countywide Policy #1125, "Safeguarding of Property/Assets."

The sample consisted of 30 assets taken from the Health Center's asset inventory list maintained by the Health Department's computerized Health Asset Tracking System (HATS) records. During our review, we were able to locate and identify almost all of the assets contained in our sample. However, we discovered the following during our examination:

- **Computer network components were not identified and tagged properly.**
- **An employee's computer had been replaced and the Health Center's asset records were not updated.**

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**Computer network components were not identified and tagged properly.** The HATS system uses a bar-coded asset identification tag to track asset information and location. During a review of a random sample of assets taken from the HATS inventory list for the Health Center, we were not able to locate or positively identify a Cisco 2600 router № 4082. In the data center, where the Health Center's computer network components were set-up and running, there were four other pieces of computer network equipment that were in use. None of these pieces of equipment matched the description of the router on the asset list. Furthermore, we could not find a HATS identification tag on any of the components of computer network equipment in the data center, or locate the items on the Health Center's asset inventory list.

Countywide Policy #1125, Section 2.2.3, states that the Property Manager should:

> *"Maintain records as to current physical location of all fixed [capital] assets and controlled assets within the organization's operational and/or physical custody."*

Countywide Policy #1125, Section 4.3.6, states,

> *"Property managers should use exact locations [of assets] whenever possible (and update them as needed) to establish better control."*

Although the Health Department has one main Property Manager, the Office Manager at the Health Center has been designated as the Controlled Assets Coordinator and assigned the duties of maintaining records of the capital and controlled assets located at that center. The Health Center's Controlled Assets Coordinator was unaware that the Cisco 2600 router was missing or that none of the components of computer network equipment was properly tagged with a HATS identification tag. She stated that the Cisco 2600 router was more than likely replaced with some other piece of equipment without her knowledge.

The Controlled Assets Coordinator indicated that the Health Department's IT personnel were responsible for the acquisition, disposal, and/or transfer of computer equipment into or out of the Health Center. She speculated that the IT personnel had replaced the old router with the new equipment and did not notify her of the change or ensure that the new equipment was properly tagged.

Items such as computer equipment are highly susceptible to theft and/or conversion to personal use. If the Health Center's records are not updated to document the acquisition, disposal, or exchange of assets the risk that assets could be lost, stolen, or converted to personal use increases. Without proper identification of the computer network components, there is a possibility that these assets are not being accounted for within the Health Department's asset records. The Health Department's IT personnel should make sure that the Health Center's Controlled Assets Coordinator is aware of any new computer equipment that is acquired so that HATS system records can be updated in a timely manner to reflect the changes.

**RECOMMENDATION:**

***The Health Center's Controlled Assets Coordinator should contact the Health Department's IT Manager and have the computer network components properly identified and tagged. All computer network components should be added to the Health Center's controlled assets list.***

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**An employee's computer had been replaced and the Health Center's asset records were not updated.** During our review of capital and controlled assets at the Health Center, we examined a sample of five SLVHD Employee Controlled Asset Inventory Forms to verify that all items on the forms were properly accounted for and that the employee had signed the form acknowledging responsibility for the assigned items. On one employee's inventory form we found that the computer equipment assigned to the employee did not match the asset listed on the Employee Controlled Asset Inventory Form. After inquiring about the discrepancy with the Controlled Assets Coordinator, it was determined that the old computer had been replaced with another computer, since the Health Center's last physical asset inventory on May 16, 2008. The Health Center's HATS inventory list had not been updated since the exchange of the computers. This asset was recorded as follows:

| Description | Old Asset Number | New Asset Number |
|---|---|---|
| Dell Computer | № 5049 | № 2547 |

The Controlled Assets Coordinator was unaware of the discrepancy and, again attributed the problem to the fact that the Health Department's IT personnel were responsible for the acquisition, disposal, or transfer of computer equipment into or out of the Health Center. In this case she assumed that the old Dell computer, № 5049, had been replaced by the new Dell computer, № 2547, and that the IT personnel had not notified her of the exchange so that she could update the Health Center's asset inventory list and the SLVHD Employee Controlled Asset Inventory Form.

**RECOMMENDATION:**

**The Health Center's Controlled Assets Coordinator should work with the IT Manager to ensure that all acquisitions, disposals, or transfers of controlled assets are properly documented and that the Health Asset Tracking System is updated to reflect the changes.**

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In closing, we express appreciation to the staff at the South East Public Health Center for the cooperation and assistance they gave us during our audit. Implementation of the recommendations in this letter will help to improve operations, ensure the security of County assets, and strengthen internal controls throughout the Health Center. We trust that our work will be of benefit to your staff. If we can be of further assistance to you in this regard, please contact us.

Sincerely,

James B. Wightman, CPA
Director, Internal Audit Division

cc: Doug Peterson
Terri Ledding