

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of the Key Controls of
Public Works Operations

February 21, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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February 21, 2014

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Public Works Operations

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Public Works Operations in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Public Works Operations and the cooperation from Cheryl Wheeler, Cost Distribution Specialist, Carolyn Marsing and Jackie Paul, Accounts Receivable/Payable Coordinators, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Public Works Operations during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Anita C. Kasal
Deputy Auditor

cc: Russ Wall, Division Director
Kevyn Smeltzer, Operations Division Director
Lynn Erickson, Fiscal Manager

GREGORY P. HAWKINS
Salt Lake County Auditor

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Public Works Operations. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

The Public Works Operations Division has put into place several key internal controls for managing public funds, safeguarding public assets, and payroll reporting. Most risks identified were minor and would not be expected to result in the material loss of County assets. Deficiencies in certain internal controls over the petty cash fund have a higher likelihood of leading to loss of County property. The report of the last audit of Public Works Operations was released to the public in June 2012.

Findings and Recommendations

Finding # 1 - The authorized petty cash fund balance was excessive.

Risk Level: High

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.1.4 states:

"The requested imprest amount should be sufficient to provide adequate operating funds for 2 months."

During a review of the 2013 petty cash bank statements, it was found that the balance was never below \$10,000 and that there were four months where the beginning and ending balances were the same amount, showing no activity. Average monthly expenditures for 2013 were \$390.

In an interview, the fiscal manager explained that the prior auditor had also found that the fund balance was excessive. However, the fiscal manager knew that clothing expenditures for employees were being shifted to the automated payroll. Therefore, the fiscal manager did not want to reduce the fund by a temporary amount but preferred to make one reduction after assessing the petty cash balance following elimination of the clothing expenditures.

When excess funds are retained, County cash flow is restricted and funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management reduce the change fund to a level sufficient to provide operating funds for two months and return the excess funds to Mayor's Financial Administration.

Finding # 2 - The custodian was able to write and cash checks without proper separation of duties.

Risk Level: High

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 4.6.3 states:

"To ensure proper internal control and separation of duties, if the Custodian is the recipient of the petty cash, he/she shall sign as Payee, and the Fiscal Manager or another Agency-designated supervisor shall approve and sign as Custodian."

The custodian was issuing checks payable to "cash," signing the check, and then cashing the check at the bank.

When the petty cash custodian can write, endorse, and cash checks without supervisor approval, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management ensure proper internal controls and separation of duties are in place when the custodian needs to replenish the cash portion of the petty cash.

Finding # 3 - Accounts receivable reconciliations were not performed monthly, or reviewed and signed by an independent party.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Sections 5.3.2 and 5.4 state that:

"The ledger of A/R (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. ... The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payments. In the event that staffing levels prevent such a segregation of duties, a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

The accounts receivable ledger was not being reconciled monthly, documented and signed by the employee performing the reconciliation, or reviewed and signed by an independent party.

When the accounts receivable ledger is not reconciled and reviewed on a monthly basis, misappropriation and errors are more likely to occur and remain undetected.

Recommendation

We recommend that monthly reconciliations are performed on the accounts receivable ledger and those reconciliations are reviewed and signed by a supervisor.

Finding # 4 - The accounts receivable aging detail showed unpaid invoices that were issued over two years ago.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 4.0 states:

"County departments and agencies are required to take all appropriate and cost effective actions to aggressively collect accounts receivable, including assessing related collection costs, interest, penalties, or fees.

The accounts receivable aging detail showed 217 out of 281 invoices with unpaid balances that were issued to Planning and Development. Planning and Development placed liens on the properties, but had not paid Public Works Operations. There were 212 invoices issued to Planning and Development that were over 100 days past due. Public Works Operations had not taken additional action to collect on these invoices.

When the invoices are aged and remain unpaid, County assets are overstated.

Recommendation

We recommend that aggressive action be taken to clear older invoices or write them off of the accounts receivable.

Finding # 5 - Accountability for some controlled assets was not properly established.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.2 states that the property manager is responsible for:

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

Four out of 50 controlled assets we reviewed were not properly inventoried. A line trimmer was not found, a weed sprayer was improperly tagged, and both an automatic airless gun and a cutting torch were not tagged.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that missing equipment is either located or removed from the controlled asset inventory list.

Finding # 6 - Manual receipts were not used in numerical order.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 3.5.3 states:

"If a County Agency uses manual receipts, they shall be pre-numbered and used in numerical order."

When one receipt book was finished the next receipt book was not chosen so that sequential numbering was being maintained.

When receipts are not used in numerical order, funds are at greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the manual pre-numbered receipt books are used in sequential numerical order.

Finding # 7 - Petty cash vouchers were not signed by the recipient.

Risk Level: Low

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 4.6.2 states:

"Petty cash may be released prior to the purchase, or the employee/Payee may be reimbursed after the purchase. In either case, vouchers shall be filled in completely. The voucher shall be signed by the employee/Payee and approved by the Custodian, as indicated by his/her signature."

Cash was released by the petty cash custodian to an employee's supervisor without the recipient's signature on 2 out of 47 petty cash vouchers.

In an interview the petty cash custodian reported that the supervisor was picking up the cash reimbursements for his employees.

When the recipient of the petty cash does not sign the voucher, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the recipient of petty cash sign the vouchers.

Finding # 8 - A tamper-proof deposit bag was not being used.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.3.1 states:

"Agencies will submit their daily deposits in a sealed, plastic, tamper-proof deposit bag."

The deposit was not secured in a tamper-proof bag.

When a deposit is not secured in a tamper-proof bag, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the deposit be secured in a tamper-proof bag before it is transported to the bank.

Finding # 9 - The purchasing cards were not always signed by the cardholder.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 2.1 states:

"Immediately, upon receipt of the P-Card, it shall be signed by the Cardholder."

Of the 26 purchasing cards reviewed, 4 cards were not signed on the back by the cardholder.

When a purchasing card is not signed, the cardholder cannot easily be verified by a vendor when making transactions.

Recommendation

We recommend that the cardholder sign the purchasing card.

Additional Information

Background

The Public Works Operations Division office is located at 604 West 6960 South, Midvale, Utah. Responsibilities of the office include: roads, traffic signals, street lights, street signs, pavement management, and snow removal. The Division can be reached 24 hours a day. Their home page states: "We are looking for feedback from our customers" and an on line survey is available for customer's feedback.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending November 30, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, will be attached as Appendix A.



February 16, 2014

Gregory P. Hawkins
Salt Lake County Auditor
2001 South State Street, N3300
Salt Lake City, UT 84114-4575

Ben McAdams
Salt Lake County Mayor

Re: 2014 Key Controls Audit of Public Works Operations Response

Russ Wall
Public Works Director

Dear Mr. Hawkins:

Patrick Leary
Township Executive

The following is the response to the audit findings of Anita C. Kasal, Deputy Auditor.

**PUBLIC WORKS
OPERATIONS
DIVISION**

Audit Finding # 1 - The authorized petty cash fund balance was excessive

Kevyn Smeltzer
Public Works Operations
Division Director
ksmeltzer@slco.org

The Public Works Operations petty cash imprest account was originally set up to cover all of the Public Works Department. Over the years, other Divisions have gotten their own petty cash funds but still rely on Public Works Operations to write checks for items that are within the petty cash threshold and need to be mailed to vendors that won't accept purchasing cards. In 2013 Public Works Operations quit providing uniform clothing reimbursement through petty and started giving a uniform allowance through payroll. This was also the first year that Public Works Operations has not provided petty cash for the Sanitation Division that left the County and become a special service district.

Administration
604 West 6960 South
Midvale, Utah 84047-3483

We were already on track to reduce the imprest account this year. We hadn't done it in 2013 because we didn't know exactly how much to reduce it by since we had the two big changes happen in 2013 that impacted the amount that we would disburse from the account. The Administrative & Fiscal Manager submitted an MPF form 2 to Mayor's Finance on January 9, 2014 to find out the exact procedure for reducing the fund since that particular circumstance is not spelled out in the Countywide Policy #1203 "Petty Cash and Other Imprest Funds". As of February 19, 2014 we have returned the excess funds to Mayor's Finance and have reduced the fund to an adequate 2 month operating level.

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Audit Finding # 2 - The custodian was able to write and cash checks without proper separation of duties.

All checks made out payable to "cash" were used to replenish the cash in the cash portion of the petty cash fund. These checks were made out by the backup petty cash custodian and the petty cash custodian was the cashing the check. The Administrative & Fiscal Manager was aware each time this occurred and the cash was accounted for upon her return from the bank.

Effective immediately we will have the petty cash custodian write the check out to another employee. This will eliminate checks written out to "cash" and provide a written trail of the cash transaction.

Audit Finding # 3 - Accounts receivable reconciliations were not performed monthly, or reviewed and signed by an independent party.

The ledger of Accounts receivable was being reconciled monthly, but it was being done by the employee who received the payments and no written documentation of the process was kept. The accounts receivable ledger was being reviewed by the Administrative and Fiscal Manager but not always on a monthly basis.

Beginning immediately the Administrative & Fiscal Manager or the newly hired Accountant will reconcile the accounts receivable log on a monthly basis and sign the logs and the logs will be retained as documentation that the process has been completed.

Finding # 4 - The accounts receivable aging detail showed unpaid invoices that were issued over two years ago.

Starting in 2013 Public Works Operations has had Planning & Development Services budget an expense line to pay Public Works Operations for weed clean-up for County homeowners who are in violation of County weed ordinances and who do not take care of the problem on their own. The past due invoices were from years prior that Planning & Development Services did not budget money to pay Public Works Operations for this service.

The Public Works Operations Director will write the old invoices off as it may be years before the liens are paid off and the money repaid to Public Works Operations.

Finding # 5 - Accountability for some controlled assets was not properly established.

Controlled asset lists are given to each supervisor annually to review. It appears that some assets were not reported as being used for parts or misplaced. We will discuss with the supervisor the importance of the controlled asset reporting in our next supervisor meeting.

We did not get a list of the assets in question. We request that the Auditor provide Public Works Operations with this list of discrepancies so that we can take the necessary steps to locate and secure these assets or remove them from the controlled asset list.

Finding # 6 – Manual receipts were not used in numerical order.

We do not use custom printed, sequential receipts but instead, purchase receipt books “off the shelf” and those books don’t always follow in sequence after the last receipt book. The Administrative & Fiscal Manager does check into why receipt numbers jump and is aware of when new receipt books are started. We don’t believe that the cost of having pre-numbered receipt books printed is worth the low risk involved.

This year we will begin using the County’s new PeopleSoft accounts receipting to start receipting. When we were trained on the system, it was not working and the training has not been rescheduled. In the meantime, the Administrative & Fiscal Manager will make note of and verify when new receipt books are started that do not follow in numerical order.

Finding # 7 – Petty cash vouchers were not signed by the recipient

Starting immediately, petty cash will only be issued directly to the person who is to be reimbursed. If they are unable to come in to pick up the funds a check will be issued and mailed to them directly.

Finding # 8 – A tamper-proof deposit bag was not being used.

The daily deposit is signed over by the person who receipts it to the person who writes up the deposit slip and takes it to the bank in a zippered bank bag along with another County employee who happens to be a supervisor. When the bank receipts are brought back from the bank they are given to the Administrative & Fiscal Manager who verifies that the amount receipted and the amount deposited reconcile.

Starting immediately tamper-proof bags will be used for the bank deposits.

Finding # 9 – The purchasing cards were not always signed by the cardholder.

On February 20, 2014, the Administrative & Fiscal Manager verified that all p-cards had signatures on them. This will be included in our annual refresher on the use of p-cards.

Thank you for making us aware of these concerns.

Sincerely,

Kevyn Smeltzer, P.E., Division Director
Salt Lake County Public Works Operations

By Lynn Erickson, Administrative & Fiscal Manager
Cc: Russ Wall, Public Works Director