

Salt Lake County Auditor's Office

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Patti Pavey
Executive Director
Salt Lake City/County Health Department
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Dear Patti:

We recently completed an unannounced count of the change funds and the cash on-hand portion of the imprest checking account at the Ellis R. Shipp Public Health Center. We also reviewed the operation of the imprest checking account, the center's cash receipting and depositing procedures, and fixed and controlled assets.

Currently, County employees at Ellis Shipp also handle transactions for the University of Utah (U of U) OB/GYN clinic that is conducted there. A separate change fund is provided by the U of U for these transactions. We also verified this fund's balance during our initial unannounced count. However, since U of U employees will take over the processing of their own transactions in early November, we did not review the center's cash receipting and depositing procedures related specifically to the U of U funds.

Overall, many sound internal control procedures are in place and functioning properly. The Ellis Shipp staff is to be commended for their efforts in this regard. Nonetheless, we did find some areas where improvements are needed. All of our findings and recommendations were discussed verbally with the office manager and district manager. The findings and recommendations considered most significant are presented in this letter.

CHANGE/IMPREST FUNDS AND CASH RECEIPTING/DEPOSITING

The most significant findings identified during our review of the center's fiscal operations are:

- **Unannounced cash count results indicate that receipts may not be consistently given and that County and U of U funds are sometimes commingled.**

- **Voided receipts and no-sale transactions are not appropriately reviewed or documented.**
- **Independent review of cash receipting and depositing is not always accomplished.**
- **Daily cash balance sheets are not consistently completed correctly.**

Unannounced cash count results indicate that receipts may not be consistently given and that County and U of U funds are sometimes commingled. At the time of our unannounced count, the center's County change fund balance, including that day's collections, was \$49 over its authorized amount. Two significant transactions that contributed to this overage were:

- S A cashier received \$25 for services rendered and placed the payment in the cash drawer; however, this payment was not included on the collection record because no receipt was issued.
- S The same cashier received \$11 for services provided by the U of U clinic but incorrectly placed these funds into the cash drawer designated for County services instead of the cash register set aside for U of U transactions.

The cashier stated that the computerized receipting system was experiencing technical problems that day which made it impossible to issue a system receipt at times. However, back-up receipts are available for use in such situations and had been used for four other transactions that day. In this case, the patron was given only an encounter form, which is used to document services provided, and the cashier intended to prepare a receipt, either manual or computerized, at a later time.

Section 3.5.1 of Countywide Policy #1062, Management of Public Funds, states that, "cashier(s) will prepare a receipt for all remittances received". This should be done at the time of payment collection, regardless of whether the patron wants a copy of the receipt. Failure to do so results in an obvious opportunity for cashiers to divert funds to personal use.

Sound internal control procedures also dictate that monies from different funds be kept separate from each other to the maximum extent possible. If this is not done an environment of confusion can be created, thereby increasing the chances of a mis-handling or misappropriation of funds. Even though U of U funds will be handled by separate employees in the near future, care should be taken to not commingle money from any funds, either by a single employee or amongst two or more employees.

RECOMMENDATIONS:

1. *We recommend that cashiers prepare receipts immediately upon receiving payment for all transactions.*
2. *We recommend that monies from separate funds not be commingled at any time.*

Voided receipts and no-sale transactions are not appropriately reviewed or documented. On the health department's computerized receipting system, keystrokes resulting in a "RE-ENT" are done to effectively cancel-out a previous entry, if necessary. When a canceled transaction with an accompanying payment received amount is replaced by a transaction with no payment received amount, the cancellation becomes the equivalent of a void or no-sale transaction. On the day of our unannounced count, a transaction such as this occurred, wherein a \$13 "payment received" entry was canceled and replaced by a "no payment received" entry, even though \$13 had in fact been received for the transaction. This situation created the remainder of the \$49 overage, as described above.

During our review of cash receipting and depositing procedures on 36 randomly selected days, we noted three other instances in which "payment received" entries were replaced by "no payment received" entries. In all four of these cases, there was no accompanying documentation indicating either the reason for, or supervisory review and approval of, the re-entry. In addition, two back-up receipts were voided the day of our unannounced count, also with no accompanying documentation. These documentation and review procedures are required by Countywide Policy #1062, section 3.13.1, and help to protect funds from being diverted to personal use through inappropriate void and/or no-sale transactions.

RECOMMENDATIONS:

1. *We recommend that cashiers document the reason for all "payment received" entries that are replaced by "no payment received" entries on the computerized system and all voided back-up receipts.*
2. *We recommend that a supervisor review and, if appropriate, indicate approval of, all void/no-sale transactions, as described above.*

Independent review of cash receipting and depositing is not always accomplished. Standard procedures at Ellis Shipp call for cashiers to transfer the contents of their cash drawer, along with their balancing documentation, to another employee, usually this is another cashier, for verification. During our review of a random sample of cash receipting and depositing days, we noted that the

“transferred to” line was blank on seven of 101 cashiers shifts, indicating that this transfer did not take place.

In addition, procedures at the center require the completion of two reviews of the daily deposit. This is an excellent control procedure, especially since one of the cashiers always prepares the deposit. However, we noted that both of these reviews were accomplished by someone that had receipted at least some of the money included in the deposit for six of the 36 deposits we examined. Ideally, at least one of these reviews should always be done by someone entirely independent of the cashiering process, though small staff size might render such a step impractical.

Consistently accomplishing independent review of cash receipting and depositing activities is in harmony with the intent of Countywide Policy #1062. The policy’s introduction states that, “duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities and falsification of accounts”.

RECOMMENDATIONS:

- 1. We recommend that cashiers always transfer their funds and balancing documentation to another employee for verification.*
- 2. We recommend that, where practical, at least one of the deposit reviews always be done by someone entirely independent of the deposit day’s cashiering duties.*

Daily cash balance sheets are not consistently completed correctly. One of the important functions associated with completing a cash balance sheet is the calculation of the day’s overage/shortage, if any. During our review of the balance sheets completed on days in our random sample, we noted that the “Total collected per cash report” line on the sheet was left blank on four of the five days on which an overage or shortage occurred.

Each cashier balances their own drawer and documents this on a Health Department transfer form. The amount on the Daily cash balance sheet’s “Total collected per cash report” line should be calculated by summing the dollar amounts that should have been collected according to each cashier’s collection record. This result should then be compared to the amounts actually collected to determine whether an over or short exists, and, if one does exist, it’s dollar amount.

Failure to correctly complete these entries can result in mistakes and oversights in the calculation of any overage/shortage. In fact, on one of the days that the “Total collected per cash

report” line was not completed, a \$5 overage was not recorded on any of the balancing documentation or the over/short log and apparently was not detected by center staff. In addition, two other Daily cash balance sheets in our sample of 36 were filled out incorrectly and/or had mathematical errors on them.

RECOMMENDATIONS:

We recommend that the “Total collected per cash report” line on the Daily cash balance sheet always be completed and that care be taken to minimize other errors on the sheet.

FIXED AND CONTROLLED ASSETS

A fixed asset is an item of real or personal property owned by the County which meets the criteria for capitalization and has an estimated life expectancy of more than one year. A controlled asset is a personal property item, which is sensitive to conversion to personal use, generally having a cost of \$100 or greater (some specified items are considered controlled assets regardless of their cost), but less than the current capitalization rate. These items are not tracked centrally by the Auditor’s Office as fixed assets are, but are the responsibility of the organization possessing them. The recent increase in the capitalization rate from \$3,000 to \$5,000 will further increase the importance of County organizations properly accounting for their controlled assets.

Our most significant findings related to fixed and controlled assets at Ellis Shipp are:

- **Physical inventory counts were not performed in either 2000 or 2001 and fixed asset inventory results have not been submitted to the Auditor’s Office since 1999.**
- **Approximately 10% of a random sample of the center’s controlled assets could not be found and the movement of other assets was not properly tracked.**
- **Many controlled assets found at the center are not listed on the controlled asset inventory list.**
- **Controlled asset inventory lists do not contain an accountability statement that assigns responsibility for the listed assets.**

Physical inventory counts were not performed in either 2000 or 2001 and fixed asset inventory results have not been submitted to the Auditor’s Office since 1999. Countywide Policy #1125, Safeguarding Property/Assets, section 2.2.11 states, “At least annually, conduct physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization.” In response to our inquiries, the property

manager stated that an annual inventory had not been performed during 2000 or 2001 due to time constraints. Summer help was retained and a comprehensive count performed during June of 2002. The data generated was used to create the comprehensive list used during our audit which, as discussed below, was found to be questionable with regard to accuracy.

In addition, Section 2.2.11 also states, "After each annual inventory is complete, submit form (supplied by the Auditor) to the Auditor's Office acknowledging accountability for fixed assets as listed in LGFS 0801 'Fixed Asset Inventory by Organization.'" No fixed asset inventory was submitted during 2000 or 2001 nor was the 2002 summer inventory count of fixed assets submitted to the Auditor's Office.

RECOMMENDATION:

We recommend that annual inventories be conducted, and fixed asset inventory results reported to the Auditor's Office, as required by County policy.

Approximately 10% of a random sample of the center's controlled assets could not be found and the movement of other assets was not properly tracked. During our inventory of a random sample of 31 items listed on the center's controlled asset list, we were unable to locate the following:

Health Department Asset number	Description
14055	CPU
14057	Monitor
12516	VCR

We were also unable to find these items on the Health Department's list of completed PM-2's. We also could not find another controlled asset, a cell phone which was assigned to Ellis Shipp according to Health's cellular phone list. An assistant in the property manager's office told us that this phone had been lost and that the corresponding service had been canceled.

In addition, one fixed asset that we could not locate at the center and three other controlled assets that were included in our sample were found in storage at Health's 6th South 2nd East location, awaiting surplus. Also, two pagers that were shown on a separate list as being at Ellis Shipp were verified as being in different Health Department locations. Since many controlled assets that are not on the Ellis Shipp list are currently located there (see next finding), and since we have not inventoried all

Health Department locations, it is possible that the assets which we were unable to locate, as shown in the table above, are also somewhere else in the Health Department.

This entire situation would be easier to monitor and control if more up-to-date controlled asset location information was maintained. In fact, section 4.3.6 of Countywide Policy #1125, Safeguarding Property/Assets, states that when completing controlled asset forms, "Property Managers should use exact locations whenever possible (and update them as needed) to establish better control." Health Department procedures call for the use of a modified PM-2 for transfers between locations within Health. These forms should be completed when items slated for surplus are transferred to storage locations as well, unless they are going to be immediately removed to the surplus warehouse.

RECOMMENDATION:

We recommend that Health Department modified PM-2s be consistently completed on internal Health asset transfers, including for items being transferred to storage locations.

Many controlled assets found at the center are not listed on the controlled asset inventory list. While conducting our inventory, we noted at least 25 items with Health Department controlled asset stickers on them that were not recorded on the center's list. The majority of these items were televisions, CPUs, monitors, and printers.

We speculated that these assets could have been moved in from other locations since the last Health Department inventory was conducted in June. However, we searched the controlled asset lists at other Health locations for the asset numbers of the extra items and did not find them on any list. A more plausible explanation is that the extraneous items were there in June, but were not recorded by Health personnel during their inventory.

In addition, we noted many items, most of them recently acquired CPUs and monitors, that did not have Health Department stickers attached and were not on the center's list. Countywide policy #1125 requires property managers to, "Coordinate with the organization's Purchasing Clerk to ensure that all newly acquired property is identified and accountability is appropriately established."

In both situations described above, items are not being appropriately included on the controlled asset list. Doing this allows the assets to be excluded from annual inventories and increases the risk of them being converted to personal use without detection.

RECOMMENDATIONS:

- 1. We recommend that Health Department annual inventory practices be reviewed and improved.*
- 2. We recommend that the Health property manager and purchasing personnel coordinate their efforts to ensure that all newly acquired assets are added to controlled asset lists in a timely manner.*

Controlled asset inventory lists do not contain an accountability statement that assigns responsibility for the listed assets. Countywide policy #1125 requires the use of either two different Controlled Asset Inventory Forms, one for employees and one for the organization, or, “forms that contain substantially the same information”. A key aspect of the prescribed forms is the certification which, as section 4.3.3 of the policy describes, “states that the employee (for assets assigned to employees), and the Property Manager (for assets not assigned to individual employees) are accountable for all property assigned to them.” These forms require that the employee or Property Manager sign to acknowledge their acceptance of accountability.

Health Department controlled asset lists are currently maintained on spreadsheets, print-outs of which essentially become the location’s form. This form lists a person responsible for each asset, at Ellis Shipp this person is the district manager for all items on the list. However, there is no certification statement with signature line on the form. Signing to indicate acceptance of responsibility for assets increases the importance to the signer of properly accounting for those assets. This should help to greatly improve the current asset control environment.

RECOMMENDATIONS:

- 1. We recommend that the Health Department either begin using the prescribed Controlled Asset Inventory Forms or add a certification statement with signature line to their spreadsheets in a manner that will allow it to appear on each location printout.*
- 2. We recommend that individual employees be listed, and sign the certification statement, as the responsible person for assets in their control.*
- 3. We recommend that the district managers continue to be listed, and sign the certification statement, as the responsible person for assets at their location that are not assigned to individual employees.*

Patti Pavey, Executive Director

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In closing, I would like to express appreciation to the Ellis Shipp staff for the cooperation and timely assistance they gave to our auditors. I trust that our work will be of benefit to you as you endeavor to make changes that will strengthen internal controls at Ellis Shipp and throughout the Health Department. If we can be of further assistance to you in this regard, please give me a call.

Sincerely,

James B. Wightman, CPA
Director of Internal Audit

cc: Kami Peterson