

*Salt Lake County Auditor's Office
Internal Audit Division*

Internal Audit Winds-up Year-Long Series of Cash/ Fixed Asset Audits

Internal Audit provides a wide variety of information and services for use by decision-makers in County government. This year we continued analysis of the Sheriff's municipal contracts and provided information relevant to the new United Fire Authority. We also completed a review of Valley Mental Health, the Health Department, Aging Services and Substance Abuse Services and provided Council overviews on performance measurement.

Internal Audit also completed an aggressive schedule of cash and fixed asset audits, beginning in September 2002 and concluding in October 2003. These audits resulted in 47 letters containing over 360 recommendations and one, more lengthy report.

These cash audits were done, in part, to follow up on a series of cash handling workshops held with fiscal personnel and managers from around the County during 2001. We learned a lot! During the



earlier training sessions, fiscal personnel had tried to convey some of the complexities they face everyday.

During our cash audits, we experienced the great variety of operations and unique challenges faced first-hand. Organizations often had strengths in one or two areas and weaknesses in others. Through this newsletter we intend to share some of the best we saw, and highlight some of things we as a County could do better.

Special points of interest:

- Internal Audit released 47 letters between September 2002 and October 2003.
- Fixed assets with an estimated value of \$17.6 million were audited.
- Five cases of theft were investigated.
- Over 360 recommendations were made.

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Tone at the TOP! Internal Control and Management

One significant discovery of our audits was just how critical the attitude of management is in establishing a strong internal control environment. Management "sets the tone" for their organization. When leaders emphasize that internal control is important to them, it becomes important to employees. Integrity, along with high personal and professional standards, are organizational values that must be purposefully fostered. The following tips are aimed at helping managers do just that.

Lead by Example. Know and practice Countywide Policies on cash handling and asset management. (See list of some important policies on page 3).

Ensure that a copy of the relevant policies are kept on hand, and that employees read, understand and put them to use. Most importantly, never override controls or make an exception for yourself or others.

Make a Commitment to Competence. Hire the best (most qualified) employees and support new

and existing employees with training opportunities.

Continuously Monitor. On a periodic basis ask to view your organization's controlled asset list. Ensure that property managers are tracking all fixed and controlled assets, including their current location. Inquire whether or not new fixed assets are being tagged. Support asset managers in their attempts to gain the cooperation of other staff members in tracking and protecting assets.

Ensure that key fiscal personnel are taking a vacation at least once a year. Review deposits, accounts receivable and payable. Ask questions. Ensure that all amounts are deposited and receipts match expected revenue.

Develop Internal Policies. In addition to Countywide policies, organizations like the Health Department have developed their own internal policies. Each organization has unique needs. By developing specific internal policies, internal controls can be significantly strengthened.

Internal Control Is More Than Preventing Theft: Fine Arts

Internal control isn't just about preventing theft. Internal control is a process aimed at helping organizations meet their objectives, including: efficiency and effectiveness of operations, reliability of financial statements and compliance with laws and regulations.

Out of all the audits performed this year, the June 2003 Fine Arts audit probably had the highest profile and the widest scope. The audit findings produced some significant consequences, including personnel actions. Prior to recent, corrective actions, Fine Arts exhibited the characteristics of a poor control environment:

- Management's focus was primarily on program goals (performances and promotions) and not on tight fiscal controls.
- The loose environment facilitated the violation of internal controls.
- Those charged with fiscal oversight lacked knowledge of county-wide policies governing petty cash, cash handling, fixed and controlled assets. This attitude was mirrored throughout the organization.
- The fiscal manager lacked the training and competence required of the position.

The problems which resulted from this poor internal control environment included: misstatements of revenue, purchases made without or before independent approval, excessive meal and travel expenditures, independent establishment of bank accounts, and employees paid or rewarded outside of payroll.

Fortunately, no instances of criminal wrongdoing were uncovered, however, Fine Arts failed to meet the objectives of a fiscally healthy organization. Financial and budget controls were not working, violations of county ordinances and policies were occurring.

Rip Rippetoe, Associate Department Director of Community Services, and Kathy Bray, Fine Arts Fiscal Manager, were instrumental in turning the fiscal operations of Fine Arts around. We appreciate their great efforts in improving the internal controls at Fine Arts in the months following the audit.

Theft Does Happen...

Internal Audit investigated five different thefts during September 2002 to October 2003. In a separate incident controls were non-existent. A theft could have occurred undetected. Our discoveries are highlighted below.

Do Your Employees Open the Mail Alone? In one organization, an employee opened the mail alone. Some donations made through the mail were taken for personal use. Management discovered the theft after comparing the level of receipts when the employee was working to the level when she was not. Hats off to management for monitoring collections. Whenever possible, it is a good internal control practice to have two individuals open the mail and log payments received.

Are Your Deposits Locked Up At All Times? Other thefts resulted from a failure to adequately safeguard monies collected. In one instance, deposit bags dropped into a safe did not fall far enough down. Perpetrators were able to simply reach in the drop slot and retrieve the deposit bag. In another case, deposit money was left in an unlocked area.

Do You Know All Your Organization's Areas of Cash Collection? In this example, an employee was collecting miscellaneous fees and had no cash handling training. Receipts were not issued and cash collected was not safeguarded. Since no documentation was maintained, there is no way to know if all funds collected were deposited. Management should be consistently vigilant over all areas of collection within their organization, and implement proper internal controls over those areas.

Are Duties Properly Segregated? This instance involved a much more substantial theft of funds, over a period of several years. The primary control weakness was poor separation of duties. This situation is discussed in more detail in the article below.



Poor Separation of Duties, an Opportunity for Bad Decision-Making.

The introduction to Countywide Policy #1062, "Management of Public Funds," states, "The 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."

For proper internal control, the person who prepares the deposit should not have access to the accounting records. Unfortunately, one such situation occurred at the Equestrian Park, which facilitated the theft of tens of thousands of dollars. An employee who was experiencing personal financial challenges decided to bill and receipt payments for one amount, alter accounting records to reflect a much lower amount, and keep the difference. Also, some amounts collected and delivered to the employee for deposit were never taken to the bank.

This diversion of funds went undetected over a period of several years and resulted in the loss of over \$53,000. The embezzlement was not discovered until another employee noted a discrepancy in

funds he had collected, receipted and remitted for deposit. The employee involved has since plead guilty to two second degree felonies and one third degree felony relating to theft of public money and alteration of public documents.

Unfortunately, poor separation of duties is a fairly common finding. In fact, Internal Audit made detailed recommendations to Equestrian Park to improve separation of duties and supervisory review of collections in an audit report released in May 1999. Unfortunately these recommendations were not enforced.

We find other programs in the County where one individual is responsible for billing, applying payments to accounts, receipting and depositing, or a combination of these activities. These situations occur due to limited staff or lack of internal control oversight on the part of management. If staff shortages prevent adequate separation, additional, diligent, proactive supervisory oversight is critical.

Common Cash Handling Mistakes

Some cash handling errors occurred over, and over...

- **Checks not restrictively endorsed upon receipt.** Doing so discourages theft because checks are harder to divert.
- **Cashiers not completing balance forms and/or not tracking overages and shortages.** Completing these steps ensures employee accountability. Also, overages and shortages should also never be forced to balance.
- **Cash to check composition does not match** when comparing register totals to cashier balance sheets and/ or deposit records. This is one warning sign of a common embezzlement scheme.
- **Deposits not made within three days of receipt.** Timely deposits reduce the amount of funds at on hand at risk, and also maximizes County interest earned on funds received.

- **Receipts not voided properly** (ie no explanation given, receipt missing, and/or not reviewed by a supervisor) or changes are made to receipts without voiding (whited out, scribbled out or written over). Proper documentation and review of voids helps to ensure that customers are not given one receipt amount, while the deposit is made for another amount. (See Countywide Policy #1062).
- **Proper identification not recorded on the face of checks.** Doing so facilitates collection efforts in the case of insufficient funds and avoids acceptance of stolen checks. (See Countywide Policy #1301).



Controlled Assets, A New Responsibility

We estimate that County fixed assets total about \$972 million, after depreciation. Equipment and vehicles are about \$36 million of that total. Divisions audited during 2003 have responsibility for fixed asset equipment and vehicles worth about \$17.6 million. **This is limited to fixed assets, not controlled assets.**

Fixed assets are tracked by the Auditor's Office, with input from property managers, while controlled assets are tracked only at the organization level. A little over six years ago, fixed assets were items valued over \$700. Then in January 1998, that threshold was raised to \$3,000, four years later it was raised again, this time to \$5,000.

In the course of these two changes, responsibility for tracking thousands of assets shifted from the Auditor's Office to individual divisions. There is a lot at risk! Controlled assets are now defined as assets purchased for between \$100 and \$5,000, and considered easily convertible to personal use.

Some organizations, such as the Health Department, the Sheriff's Office, Fleet and Fire Department are spread out over multiple locations— making tracking assets more difficult. Others are less disbursed and somewhat smaller in size.

Following are some examples of the challenges different organizations face in trying to manage controlled assets, and ways they are trying to meet those challenges.

Case #1. Criminal Justice Services leases four floors of an office building downtown. Controlled assets are mostly personal computers, printers and scanners. Management has elected not to track desks, tables and chairs. All items tracked contain a pre-numbered tag. The controlled asset contains a description, model and serial numbers, and the location of each item. PM-2 forms are all kept on file. Individual employees sign for equipment under their control.

Case #2. The Fire Department has over 20 locations and one property manager. Management has elected to track chairs, tables and phones, in addition to computers, printers, fax machines and other equipment, for a total of 1,252 controlled assets. Each asset is assigned a unique number and a corresponding tag is attached. While the system does not always work perfectly, a great deal of effort is made to track controlled assets, resulting in stronger internal controls.

In larger organizations, management and other stake holders might consider the benefits of more decentralized control, and a narrower focus as far as what gets tracked. In organizations of this size the assistance of management and all other employees is critical. The Health Department and the Fire Department are also planning to transition to the use of bar

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Must-Know Countywide Policies

Policy #1062, "Management of Public Funds," How to:

- Physically protect funds from loss, including when to use a cashbox or register and when and how to change combinations.
- Handle, track and record overages and shortages.
- Use and maintain receipts, including proper voids, storage and check-out logs.
- Prepare and document deposits.
- Deal with errors or omissions on checks.
- Handle money found on site.

Policy #1125, "Safeguarding Property and Assets" How to:

- Track assets on approved forms, including information that must be recorded.
- Document the loan, movement or transfer of property.
- Dispose of property no longer in use.
- Physically safeguard property.
- Handle and document thefts of property.

Policy #1203, "Petty Cash and Other Imprest Funds" How to:

- Establish a petty cash or imprest checking account.
- Properly document and approve disbursements.
- Know what items cannot be purchased from an imprest account.
- How to handle shortages and overages.
- Close an imprest or petty cash fund no longer in use.

Policy #1301, "Acceptance of Checks"

- When a check guarantee card or valid form of identification must accompany checks.

Policy #1304, "Discovery and Reporting of Thefts"

- Steps to be followed in reporting illegal acts, such as theft or misappropriation of funds.

Available on-line!

<http://slcintranet/css/cpol/>



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Internal auditing is defined as "... an independent appraisal function established within an organization to examine and evaluate its activities ...The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost."
(Standards for the Professional Practice of Internal Auditing)

(Continued from page 3)

codes and scanners in tracking assets, which should increase the feasibility and the efficiency of such a large task.

Case #3. In the course of our audits we have found some organizations that did not have a system in place to track controlled assets. Reasons given by organization leaders included turn over in property managers, and failure to understand County policy. Failure to track controlled creates an environment where diversion of assets to personal use may well occur undetected.

Did You Know? Accounting and Operations Policies and Procedures

In addition to Countywide Policies covering Fixed and Controlled Assets, the Auditor's Office Accounting and Operations Division has established and documented policies and procedures. These policies are an additional, valuable resource of information and instructions for use by asset managers.

Among the topics addressed are detailed instructions on how to change the location of fixed assets on-line, how to track fixed assets prior to receiving a fixed asset tag and what forms to use if an asset has been stolen or is missing. These policies are available on the intranet at <http://audintranet/docs/acctgoper/acctgoperintra.asp?hatdoc=tablecon.html>. Refer to Section 5.0.



There is a Lot at Stake

Internal control is not just about policies, procedures, and forms. Internal control is a on-going process that involves people at all levels of the organization.

As a County, we have an obligation to protect County employees. The vast majority of County employees are good, incredibly hard-working individuals. People with these characteristics often find it hard to believe that others might behave dishonestly. Poor internal controls can place employees in positions of unnecessary temptation, or leave them unprotected in the face of allegations or uncertainty.

Unfortunately, part of our experience over the past year has been that seemingly honest, good employees sometimes make bad decisions. As a County, we have an obligation to taxpayers, to protect cash being receipted and assets purchased.

WE'RE ON THE WEB!
HTTP://WWW.SLCOAUD.ORG