



## SALT LAKE COUNTY AUDITOR'S OFFICE

**JEFF HATCH**  
*Auditor*

December 19, 2007

Lee Gardner  
Salt Lake County Assessor  
2001 S. State Street, 2300  
Salt Lake City, Utah 84190

Re: Assessor's Office Audit

Dear Lee:

We recently completed an audit of the Assessor's Office. Our audit included an examination of collections and depositing, the change funds and petty cash fund, and capital and controlled assets. We conducted an unannounced count of the change and petty cash funds as authorized through the Auditor's Office.

The lead auditor was Amy McCormick with assistance from Celestia Cragun. Larry Decker had administrative oversight of the audit.

For each area audited we addressed the effectiveness of internal controls and processes employed by Assessor personnel. Our objective was to determine whether operations relevant to areas of our examination were in compliance with Countywide policies examined. Our work was designed to provide reasonable, but not absolute, assurance that controls were adequate, records current and daily transactions valid.

We found that bank deposits were supported by daily cash balance sheets and summary reports of daily cash receipts. We reviewed internal controls relating to cash handling, such as separation of duties, and management oversight. Since our audit was limited to the above-mentioned areas, the reader should not assume that processes not discussed here were in compliance with Countywide policy.

### **CASH HANDLING**

To review cash receipting and depositing, we obtained a statistically random sample of personal property deposits for the past year November 1, 2006 to October 31, 2007. We also examined daily balance forms for collections at the information counter, where patrons pay for copies, during the same time period. As part of our audit, we performed an unannounced cash count on the change funds and petty cash fund registered to the Assessor's Office. Two change funds were in use on the day of the count and both

funds balanced exactly. The petty cash fund also balanced exactly and the vouchers were prepared correctly, had appropriate signatures, and receipts were attached. Following are the findings for this portion of the audit.

- ***Funds collected at the information counter were not deposited in a timely manner.***
- ***The information counter deposit was not reviewed by the Information Counter Supervisor and reconciled to source documents.***
- ***The Information Counter Supervisor was cashier on three occasions and approved her own daily cash balance sheet.***
- ***Documentation supporting credits or transfers in personal property tax accounts was not always on file and did not always include supervisor approval.***
- ***Documentation indicating that the personal property change fund was counted twice daily was not always present.***

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***Funds collected at the information counter were not deposited in a timely manner.*** The funds collected at the information counter for copying charges were entered into the cash register upon receipt. At the end of the day, the cashier ran a cash register z-tape, prepared a daily cash balance sheet, and placed the funds in a separate envelope labeled with the date and amount. The envelopes were then placed in a cash box which was secured in the safe overnight. At the end of the month the Personal/Real Property Specialist combined all the daily cash collections into one deposit and delivered the funds to the Audit Specialist in the Auditor's Office.

When we performed the unannounced cash count of the change fund at the information counter, the change fund balanced to the \$100 authorized amount. However, the cash box had a group of envelopes with cash and checks in them from the prior month, October 2007. They were not deposited within three days of receipt, as they should have been, because of the insignificant amounts they contained, usually about \$10 each. As a separate finding, we compared the funds included in the envelopes to their respective daily cash balance sheet and cash register z-tape and found that the envelope for October 4, 2007 was missing. The corresponding cash balance sheet for that date showed that \$7 cash had been collected. Front counter personnel were unable to determine the location of the envelope that included the cash.

We then compared the amount collected in September to the amount deposited, and there was an \$8 overage. We determined that the cashier had mislabeled the missing

envelope as September 4, 2007 instead of October 4, 2007. The missing envelope was included in the September batch. The Personal/Real Property Specialist prepared the September deposit on October 10, 2007 and therefore, due to the mislabeled envelope, mistakenly included the October 4<sup>th</sup> collections in the September deposit, causing the October shortage and the September deposit overage. We were unable to determine the source of the remaining \$1 overage in September.

Countywide Policy #1062, "Management of Public Funds," Section 3.7.2, states, "*As required by Section 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable but not later than three days after receipt.*" The possibility of deposit errors occurring and funds being mishandled increases as the time between deposits increases.

Front counter personnel stated that they were instructed to make a deposit monthly unless collections were above \$100. Excluding three \$1,000 checks, the average amount collected per month at the information counter was \$141 during the time period we examined. We noted that one \$1,000 check was deposited 9 days after receipt, another was deposited 2 days after receipt, and the final \$1,000 check was deposited on the same day as it was received.

**RECOMMENDATION:**

***Front counter collections should be deposited no later than three days after receipt.***

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***The information counter deposit was not reviewed by the Information Counter Supervisor and reconciled to source documents.*** As mentioned in the previous finding, a daily cash balance sheet was prepared by the cashier each day. The Information Counter Supervisor reviewed the daily cash balance sheet and cash register z-tape on the day after the collections occurred. The deposit was prepared by the Personal/Real Property Specialist, who was occasionally the cashier, during the first week of the month for collections that occurred in the previous month.

An additional review was not performed by Information Counter Supervisor to ensure that the amount deposited matched collections recorded on the cash balance sheets and the cash register z-tapes. Best business practice suggests that when a cashier prepares the deposit that the deposit be reconciled to source documents by a supervisor.

If the deposit occurred no later than three days after the receipt of funds, the task of reconciling source documents to the deposit would be less complicated for the Information Counter Supervisor. The reconciliation could take place at the same time the daily cash balance sheets are reviewed and signed.

**RECOMMENDATION:**

***The Information Counter Supervisor should reconcile the deposit to source documents and indicate the review with initials no later than three days after receipt of funds.***

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***The Information Counter Supervisor was cashier on three occasions and approved her own daily cash balance sheet.*** On three separate dates, we found the Information Counter Supervisor was the cashier and also reviewed, signed, and dated the cash balance sheet. An independent review of the transactions did not take place on these three days.

Policy #1062, Purpose section, states, “*Internal control is a system designed to prevent a single employee from exclusively controlling a monetary transaction...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... Established internal controls work to provide reasonable assurance that daily transactions are executed in accordance with prescribed managerial policies and that errors and omissions are detected.*” In order to ensure that proper controls are in place, it is necessary that an individual separate from the cashiering function review, sign, and date the daily cash balance form.

**RECOMMENDATION:**

***We recommend that an individual separate from the cashiering function review, sign, and date the daily cash balance form.***

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***Documentation supporting credits or transfers in personal property tax accounts did not always include supervisor approval.*** We examined a sample of 57 personal property deposits dated between November 1, 2006 and October 31, 2007. County I/S prepared a daily Personal Property Payment Report that was submitted to the Assessor for reconciling the cashiering system to the tax system. During the examination of the Personal Property Payment Report, we examined any credit transactions occurring in personal property tax accounts. While examining the deposit documentation we noted whether the credit documentation was present and whether supervisor approval was present on the documentation.

The 463 credit transactions we examined on the Personal Property Tax Payment Report are summarized in the following table:

<b>Credit Transactions Occurring in Personal Property Tax Accounts</b>		
<b>Explanation</b>	<b># of Credit Transactions</b>	<b>% of Credit Transactions</b>
Credit transactions with documentation and supervisor approval present	341	74%
Voids with documentation but no supervisor approval present	25	5%
Credit transactions with documentation and no supervisor approval present	61	13%
Credit transactions with no documentation and no supervisor approval present	36	8%
	463	

**Table 1.** *Credit transactions were not always documented and approved.*

As shown in Table 1, 74% of the credit transactions we examined had documentation and supervisor approval present in the daily deposit documentation. The 25 voids had documentation present, but did not include supervisor approval. The fiscal manager stated that the cashier had the authority within the cashing system to process voids on the same day the transaction occurred. The fiscal manager stated that he occasionally reviewed same-day voids, but did not document the review with initials.

If a void needed to be processed on a subsequent day, the fiscal manager or Personal Property Division Director was made aware of the void and processed the void because they were the only personnel with authority to perform the subsequent-day voiding transaction within the cashing system. Policy #1062, Section 3.5.2.2, states, “A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void. The voided receipt will be filed in proper numerical sequence and kept for audit purposes.” Therefore, all voids that occur should be reviewed and initialed by a supervisor. The absence of this control increases the risk of funds being stolen or mishandled.

The 61 credit transactions that had documentation on file, but did not indicate supervisor approval, included transfers between the main business tax account and a sub-account. These types of transactions did not include the receipt of funds, only a transfer between accounts. The common practice for these transactions was for a supervisor in the Personal Property Tax Division to initial the document authorizing the transaction and include instructions to transfer the funds between accounts. The document was submitted to the cashier who processed the transfer and the cashing system assigned a transaction

number. The document was filed in sequence by transaction number with the daily deposit documentation.

The final 36 transactions with no documentation on file or indication of supervisor approval included transactions in which a tax payment had been received from a business on a prior day. The funds were placed in the business's main escrow account at the time of receipt. Normally, Personal Property Tax Division employees reviewed the documentation submitted by the business to ensure the correct tax amount was calculated and submitted. Then, they instructed County Information Services (I/S) to distribute the funds from the business's main tax account to the business's sub-accounts. The sub-accounts represented multiple locations where the business owned and operated personal property. Since I/S was notified electronically through the tax system to distribute the funds, supporting documentation was not filed with the daily deposit records as was common with the other credit transactions. However, we were able to verify through the tax system that the transfers did occur and were processed to the correct subaccounts.

The lack of documentation for credit transactions and the lack of supervisor approval could result in account transfers being processed incorrectly.

#### **RECOMMENDATIONS:**

- 1. Documentation should be included in the daily deposit records for each credit transaction to enable verification of distribution to correct sub-accounts.***
- 2. A supervisor should indicate approval of credit transactions and voids on the documentation included with the daily deposit.***

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***Documentation indicating that the personal property change fund was counted daily was not always present.*** At the end of each day the cashier counted the change fund and initialed a report created by the cashiering system which indicated the balance of the change fund. Each morning and afternoon an employee in the Personal Property Tax Division counted the change fund to determine whether the amount of the fund matched the cashier's count from the prior day. The employee completed and initialed a balance form indicating the fund balance and any over/short amounts.

During our review of the change fund documents, we noted that documentation for 7 morning change fund counts and 16 afternoon counts were not included and therefore we could not verify counts at these times. Policy #1062, Section 3.7.3.2, states, "[Daily Balancing Procedures] Change funds should be counted, restored to the established imprest balance and shorts and overs recognized..."

This procedure of counting the change fund in the morning and afternoon creates a strong internal control environment. However, if documentation is not retained on file to show that counts occur, the control environment diminishes, and the risk increases that the fund balance may vary from the authorized amount.

**RECOMMENDATION:**

***Management should ensure that the change fund is counted daily and that the documentation indicating the count is retained on file.***

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**CAPITAL AND CONTROLLED ASSETS**

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County capital and controlled assets, including compliance with Countywide Policy #1125, “Safeguarding Property/Assets.” Capital assets are items whose purchase price is greater than the current capitalization rate of \$5,000. The Auditor’s Office, in addition to maintaining the capital assets list and distributing a copy of it to County agencies, also prints and distributes tags for newly acquired capital assets.

Management for controlled assets is assigned to the individual agencies where these items are located. Countywide Policy #1125, “Safeguarding Property/Assets,” Section 1.2 defines a controlled asset as “*personal property items having a cost of \$100 or greater, but less than the current capitalization rate...*”

We were pleased to find a controlled assets list on file at the Assessor’s Office, maintained by a property manager, and ready for our review upon request. We selected a statistically significant sample of 62 controlled assets from the 383 items on the list and found all but two items in our sample. There were seven non-software items on the capital asset list and all were present. Based on our work in this area we found the following:

- **The Assessor’s Office did not use the *Controlled Assets Inventory Form—Employee*.**
- **Two computers on the Controlled Assets List were not found.**

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**The Assessor’s Office did not use the *Controlled Assets Inventory Form—Employee*.** Individually assigned assets—computers, printers, digital cameras, etc.—are registered by name and location on a controlled asset list, but individuals to whom these items are assigned were not required to sign for them as evidence of their custody.

Policy #1125, Section 2.3.4, states, “...at least annually, employees assigned fixed or controlled assets shall review the list of assigned assets and provide verification by his/her signature to the Property Manager as to the accuracy and completeness of the list.” Such verification should be in the form as provided by Section 4.3.1, Exhibit 3 of the policy, or a form that contains the same information.

Failure to use the required form fails to pinpoint the responsibility of the employee to formally acknowledge control of assets assigned to them and to notify the Property Manager of any change in asset status. When the employee form is not used, assignment of responsibility for any loss or theft is more difficult to accomplish.

**RECOMMENDATION:**

*All employees with individually assigned assets should complete the “Controlled Assets Inventory Form--Employee,” and the form should be reviewed and signed annually.*

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**Two computers on the controlled asset list were not found.** In our random sample of 62 controlled assets, we did not find two IBM computers said to be located in the waiting area of the Assessor’s Office. The property manager stated that these two computers had been transferred to surplus and showed us a form PM-2 which listed two computers of the same make and model number. Because the form did not show serial numbers, we did not have positive verification that the two items sent to surplus were the computers on the controlled asset list. Transfer of items without serial number verification could allow assets to be converted to personal use.

Without the serial number, two identical pieces of equipment cannot be distinguished as makes and models of similar equipment are alike. Because the identifying mark on an item is its serial number, the form PM-2 should include this number to reference all assets transferred to surplus.

**RECOMMENDATION:**

*The controlled assets list should be updated to record the transfer of the two computers, and forms PM-2 should include serial numbers to verify transfer of assets to surplus.*

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In closing, we express appreciation to the staff at the Assessor’s Office for their cooperation and assistance during our audit. They were most helpful and prompt in responding to all our requests. We are confident our work will be beneficial to you as

Lee Gardner  
Salt Lake County Assessor  
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you endeavor to make changes to strengthen internal controls. If we can be of assistance to you in the future, please let us know.

Sincerely,

James B. Wightman, C.P.A.  
Direct of Internal Audit

cc: Kevin Jacobs