

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



An Audit of the Key Controls of
Friendly Neighborhood Senior Center

January 25, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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January 25, 2013

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 Friendly Neighborhood Senior Center

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LLM
Chief Deputy Auditor

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Dear Mayor McAdams:

We recently completed an analysis of the financial records of Friendly Neighborhood Senior Center 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 Friendly Neighborhood Senior Center and the cooperation from Sarah Brenna, Division Director, and Jessica Montgomery, Fiscal Manager, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Friendly Neighborhood Senior Center 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

A handwritten signature in blue ink that reads "Anita C. Kasal CPA".

By Anita Kasal CPA
Deputy Auditor

cc: Sarah Brenna, Division Director
Jessica Montgomery, Fiscal Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Friendly Neighborhood Senior Center (FNSC). 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

FNSC has put into place 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 payroll, controlled assets, and purchasing card have a higher likelihood of leading to loss of County property.

Findings, Recommendations, and Management Responses

Finding # 1 - A former employee continued to be compensated after their termination.

Risk Level: High

Countywide Policy #5702 "Standards of Conduct," under inappropriate behavior Section 1.6 states: "Falsifying any documents to be received or used by County government including, but not limited to, employment applications and related documents, work related records, time cards, requests for reimbursement, etc."

An Aging Services employee recorded and was paid for work at FNSC that was not actually performed.

Some Aging Services employees work at multiple senior centers. However, their timecards were only reviewed and approved by one senior center, the employee's primary work location. There was no control in place to verify hours recorded at other centers where they were actually worked.

When hours worked are not verified and approved by supervisors at each location, there is an increased risk of payroll errors, fraud, and abuse.

Recommendation

We recommend that FNSC seek to recover the amount paid for work that was not performed.

We recommend that Aging Services take appropriate disciplinary action.

We recommend that Aging Services implement policies and procedures to ensure that all hours recorded as worked are verified and approved by each location.

Management Response

FNSC management is investigating the incident and intends to take appropriate measures when the investigation is concluded.

Finding # 2 - No controlled asset inventory list existed.

Risk Level: Moderate

Countywide Policy #1125 "Safeguarding Property/Assets," Section 2.2.3, under Property Manager's Duties, Property Managers are responsible to: "Maintain records as to current physical location of all [capital] assets and controlled assets within the organization's operational and/or physical custody."

There was no controlled asset inventory on file for FNSC.

Failure to perform, document, and maintain a controlled asset inventory increases the risk of assets being lost, stolen, or diverted for personal use. It also makes it difficult to conduct a meaningful audit of an agency's assets.

Recommendation

We recommend that FNSC conduct and document annual inventories of controlled assets and update the inventory list whenever assets are acquired or disposed.

Management Response

The Division does not have a current controlled asset inventory list. A new controlled asset system is to be implemented by March 31, 2013.

Finding # 3 - FNSC has no record of PM-2 forms .

Risk Level: Moderate

Countywide Policy #1100 "Surplus Property Disposition/Transfer/Internal Sale," Section 3.3.5 states:

The transferring organization has the responsibility to see that the form is initiated, fully completed, properly signed, and that a copy is provided to the transferring organization, the receiving organization, and to the County Auditor. If adequate information is provided with the PM-2 form, then the responsibility for the property will pass to the receiving organization or will be a valid consignment to the surplus property agent.

FNSC did not have any PM-2 forms on file.

When assets transfers, disposals, or sales are not properly documented, assets are at a greater risk of conversion to personal use.

Recommendation

We recommend using Form PM-2 when transferring, disposing, or selling assets and FNSC retain a copy for their records.

We recommend that FNSC obtain copies of Form PM-2 for their records.

Management Response

From this point forward, the manager will ensure PM – 2 forms are completed and copies are kept in the center files.

Finding # 4 - Monthly purchasing card reconciliations lacked documentation.

Risk Level: Moderate

Countywide Policy #7035 "Purchasing Cards," Section 6.2 states: "The Cardholder shall reconcile original receipts with the Issuer's statement of monthly activity, and note any items of reconciliation that require further documentation or inquiry."

The manager is the purchasing card holder at FNSC. At the time of our fieldwork, the manager had been in place for four days. The former manager's purchasing card documentation was not onsite. We were able to obtain that documentation from Aging Services Administration. Unfortunately, the monthly reconciliation by Cardholder Activity (electronically) or Transaction Log (manually) was present only 50% of the time.

Not performing a reconciliation on purchasing card receipts and bank statements increases the risk of inappropriate expenditures and funds being diverted for personal use.

Recommendation

We recommend that FNSC Managers perform reconciliations and document such reconciliations.

Management Response

The employee audited is no longer employed with Salt Lake County Aging Services.

The current manager has documented and performed all reconciliations to date according to policy.

Finding # 5 - No receipts were issued for payments remitted.

Risk Level: Moderate

Countywide Policy #1062 "Management of Public Funds," Section 3.1.2 states: "All persons remitting payments in the form of currency, check, money order or other negotiable instrument; or by payment card to Salt Lake County, in person 'over-the-counter,' shall be issued a receipt documenting the payment."

FNSC occasionally accepts cash for copies, meals for patrons under the age of 60, and FNSC building rental. Funds were received without issuing a receipt to the payer in all cases.

Receiving payments without issuing a receipt increases the risk of funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend that a receipt be issued for all cash payments.

Management Response

The manager has purchased a numbered receipt book and will receipt all 'over-the-counter' currency to the payer according to County policy.

Finding # 6 - Prior Manager (April 2012) did not review the Deposit Reconciliation with the Bank Deposit Slip.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 4.2.2 states: "The "master" balance sheet shall be reviewed and reconciled to the bank deposit slip, and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit."

FNSC Manager did not review or match the deposit reconciliation sheet with the bank deposit slip.

Not matching the deposit reconciliation with bank deposit slips increase the risk that funds will be lost, stolen, or diverted for personal use.

Recommendation

We recommend the FNSC Manager ensure that the bank slip matches the deposit reconciliation sheet.

Management Response

The employee audited is no longer employed with Salt Lake County Aging Services.

The manager will ensure that all bank slips match the deposit reconciliation sheets; two signatures will be documented on reconciliation sheets.

Finding # 7 - No fund transfer log was included with the change fund.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 2.7.3 states: "Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox."

FNOSC does not use an MPF Form 7 or similar log to document employees removing and returning the change fund to and from the safe.

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

Recommendation

We recommend an MPF Form 7 "Fund Transfer Ledger" or similar log be used.

Management Response

The manager has implemented a transfer log; fund transfers are now documented.

Finding # 8 - Checks received by mail were not opened in the presence of two persons.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 3.1.5 states:

Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use.

FNOSC receives a small number of checks through the mail, which are opened by one person.

When mail is not opened under dual control and included on a log, funds are at greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that mail be opened in the presence of two persons and included on a log.

Management Response

The manager has trained all staff that mail received will be opened in the presence of two employees.

Finding # 9 - Checks were not restrictively endorsed upon receipt (when received through ways other than a donation box).

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 3.6.1 states:

All checks and negotiable instruments received by Cashiers shall be restrictively endorsed immediately upon receipt using the Agency's approved restrictive endorsement stamp. This procedure restricts the disposition of the check "for deposit only," to the Agency's authorized bank account.

FNSC did not immediately endorse checks with the Agency's restrictive endorsement stamp.

Not endorsing checks upon receipt places funds at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that checks be endorsed immediately upon receipt.

Management Response

The manager has trained all employees and will ensure that all checks are endorsed immediately upon receipt and logged according to County policy.

Additional Information

Background

FNSC is a part of the Salt Lake County Aging Services Division and is located at 1992 South and 200 East, in Salt Lake City. FNSC provides seniors with social and learning opportunities, including: meals, classes, computer access, and activities.

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 December 15, 2012. 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.