

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



An Audit of the Key Controls of
Facilities Services

July 18, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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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 Facilities Services

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Facilities Services 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 Facilities Services and the cooperation from Theresa Christensen, Purchasing Coordinator, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Facilities Services 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 James Fire MBA/Acc
Deputy Auditor

cc: Wayne Marion, Division Director
Rory Payne, Associate Division Director
Jan Fritz, Internal Services Manager

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Facilities Services. 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

Facilities Services has issued 53 purchasing cards, which represents approximately 13% of all purchasing cards in the County. During the audit, over 1,500 transactions totaling more than \$531,000 were reviewed.

Our findings relating to purchasing card use and the risks associated with sales taxes paid, fraudulent transactions, transaction review, and management approval were greater than for most County agencies.

Findings, Recommendations, and Management Responses

Finding # 1 - Sales tax was paid on purchases.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 4.1.1 states:

"County purchases are exempt from sales tax. Therefore, if sales tax is mistakenly paid and the tax to recover is worth the cost of the recovery effort, the Cardholder shall take actions to obtain a credit to the P-Card account for the tax paid. Otherwise, the Cardholder may be held responsible, at the discretion of their County Agency Management, for reimbursing the County for the amount of the sales tax."

Salt Lake County Purchasing Card Training Manual and Operating Standards, Section 4.3 states:

"You should NOT pay sales tax. Your card states the County's tax exempt number on it. If you find a receipt where you have paid sales tax, you need to have the charge credited and re-run without sales tax. In cases where the vendor refuses to refund the tax, please consult with your supervisor and fiscal manager as to how much time should be spent on this process."

For the period March 01, 2012 to February 28, 2013, purchasing card bank statements reported 125 transactions that included \$2,185.14 in sales taxes paid. To verify if the reported sales tax paid was accurate, a statistically relevant sample of 60 transactions was examined. Of the transactions examined, only 8 (13%) of the 60 transactions had sales taxes paid, for a total of \$41.67.

Management stated that during reconciliation reviews, original receipts were not examined by reviewers for sales tax paid.

When sales tax is paid, it depletes County resources without providing benefits to the County.

Recommendation

We recommend that cardholders, and personnel responsible for authorization of charges, examine receipts to determine if sales tax was included in the transaction charge. If sales tax was paid, we recommend that the cardholder and management resolve the tax paid according to Countywide policy.

Management Response

Facilities will immediately implement audit recommendations.

Finding # 2 - Four cardholders have not attended the mandatory purchasing card training.

Risk Level: Low

Countywide Policy #7035 "Purchasing Cards Authorization and Use," Section 1.3 states:

"The cardholder agreement with the County shall be signed by the Agency-designated applicant / Cardholder. The Cardholder, their supervisor, and the Agency fiscal manager shall attend P-Card training provided by the Division of Contracts and Procurement."

County Contracts & Procurement verified that four Facilities Services employee cardholders had not attended the mandatory purchasing card training. The cardholders were issued purchasing cards in 2008.

According to management, the cardholders missed the training and did not reschedule to attend a later class.

When training meetings are not attended, cardholders may not be aware of all stipulations regarding record keeping, authorized and unauthorized purchases, and procedures in the event of loss or theft of the purchasing card, as taught in the training.

Recommendation

We recommend that the four cardholders attend the mandatory purchasing card training.

Management Response

All four have been scheduled for training and will have completed training June 12, 2013. Documentation to be provided upon completion.

Action Taken: Salt Lake County Contracts and Procurement verified on July 15, 2013 that three of the four cardholders attended training on June 12, 2013. The fourth was unavailable at the time and was scheduled to attend the August 2013 training.

Finding # 3 - The purchase of an extended warranty was questionable.

Risk Level: Low

Salt Lake County Purchasing Card Training Manual and Operating Standards, Section 4.2 "Examples of when the Purchasing Card may not be used," states that purchasing cards may not be used for:

"Any merchant, product, or service normally considered to be inappropriate use of County funds."

Equipment purchased on December 12, 2012 for \$916.86 included an extended warranty for \$275.06. This resulted in the total cost of \$1,191.92 or 30% more.

Management stated that equipment vendors may automatically add an extended warranty to invoices as a standard practice.

The additional costs of an extended warranty could be considered inappropriate use of County funds. Facilities Services does not have a system in place to track specific equipment and their corresponding extended warranties, nor a means to record justification for the purchase of extended warranties. Also, County agencies that reimburse Facilities Services for project materials may not be aware of additional costs incurred for extended warranties.

Recommendation

We recommend that extended warranties include a supervisor's written authorization on the invoice to indicate that it is appropriate.

Management Response

At next all-hands meeting this item will be discussed and will discourage purchase of extended warranties. If a warranty is needed proper approvals will be requested before purchase.

Additional Information

Background

Facilities Services, Organization 3300, strives to ensure that facilities are pleasant, comfortable and functional for all who use them. A small army of journeymen who are electricians, plumbers, HVAC technicians, and construction workers provide maintenance services for over five million square feet of County-owned buildings.

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 April 19, 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.