

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



An Audit of the Key Controls of
Class B Roads-Maintenance

November 19, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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November 19, 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 Class B Roads-Maintenance

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Class B Roads-Maintenance 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 Class B Roads-Maintenance and the cooperation from Lynn Erickson and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Class B Roads-Maintenance 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 Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Kevyn Smeltzer, Director of Public Works Operations
M. Leon Berrett, Associate Director of Public Works Operations
Lynn Erickson, Fiscal Manager
Larry Moller, Public Works Fiscal Administrator

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Class B Roads-Maintenance. 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

Computations used in selecting asphalt/cement vendors for maintenance projects were not documented and on file. Personnel stated that computations were made but could not produce evidence of them on specific projects for our review. Also, the process for recouping expenditures made out of the Class B Roads fund was not fully documented. Finally, completion dates were not documented for contracted projects in determining whether liquidated damages should have been assessed in case of completion beyond the target date.

Findings and Recommendations

Finding # 1 - Computations in determining which asphalt/cement vendors to use were not documented.

Risk Level: Low

The "Asphalt Concrete Mix Request for Bids and Resulting Contract," Section 7.0 states:

“County will make requests for concrete based on pricing, County trucking costs and availability. Vendors must be located within the boundaries of Salt Lake County.”

Documentation of an internally required calculation in determining asphalt/cement vendors to use for specific projects was not on file. The option is available to use one of five contracted asphalt/cement vendors. The calculation takes into account vendor costs and trucking distances from the vendor location to the Public Works project site.

Personnel stated that they performed the calculation in determining which vendor to use, but had not saved it.

When the vendor calculation is not saved, proof is not available that it was actually performed. One vendor could be unfairly used for asphalt materials over others.

Recommendation

We recommend that the computation for selecting asphalt/cement vendors be used and maintained on file.

Finding # 2 - The ending date for a contracted maintenance project was not documented and on file.

Risk Level: Low

The "Agreement" for 2013 slurry seal, Section 2.05, titled "Liquidate Damages" states:

“Late Contract Time Completion: \$1000 for each day or part thereof that expires after the Contract Time until the Work is accepted as Substantially Complete as provided in the General Conditions.”

Documentation was not on file stating the completion date for a slurry seal project in 2013. Also, the “Notice to Proceed,” dated May 9, gave the contractor 60 days to complete the project when the contract stated 90 days.

Management stated they were satisfied with the completion time by the contractor, and did not feel the need for a formal document so stating.

Without a documented project completion date, a basis is not available in determining whether liquidated damages should be assessed. The County could lose money that it could otherwise earn.

Recommendation

We recommend that documentation providing the date a contractor completed a maintenance project be filed with the final payment processed through Mayor Financial Administration.

We recommend that the project start date be consistent between the contract and Notice to Proceed.

Finding # 3 - County property tags were missing for computer software.

Risk Level: Low

Countywide Policy #1162, “Safeguarding Property/Assets,” Section 2.2.8 states one of the property manager’s duties as follows:

“Coordinate with the organization’s Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established, and capital assets are tagged and capitalized.”

Two County property tags for computer software were missing.

Management stated that they did not know where to affix property tags assigned to software. Also, property tags may no longer exist since this software was purchased 13 years ago.

When property tags are not affixed, accountability for capital assets is diminished.

Recommendation

We recommend that County property tags for software be affixed in a location available for auditing purposes.

Finding # 4 - Sufficient data was lacking to support recouping of costs in the Class B Roads fund.

Risk Level: Low

Countywide Policy #1060, "Financial Goals and Policies," Section 7.11 states:

"The Auditor shall review the cost allocation methodologies used throughout the County for consistency and compliance with generally accepted cost accounting practices."

Documentation on hand did not support reimbursement of materials costs, such as asphalt, to the Class B Roads fund. Public Works Operations contracts with various cities to maintain their roads. All costs of materials are charged to the Class B Roads fund. Once the city pays for a specific project, materials costs are reimbursed to the fund. We found a maintenance project for a contract city where \$2,928 in materials was used, but documentation to support return of this amount to the fund was missing.

Auditors viewed documents where management stated the \$2,928 was included in a larger amount as part of an accounting entry allocating money back to the fund. Personnel could not determine the source of this larger amount, or which component parts of other projects were included in it. Therefore, we could not verify reimbursement of the \$2,928. Management also stated that difficulty occurs in accounting for contract costs because cities pay 1/12 of an annual contract amount each month, in addition to being billed for specific projects.

When recouping of costs to the Class B fund lacks a sufficient audit trail, or all amounts in accounting entries cannot be reconstructed, expenditures for materials may not be reimbursed as they should be. Therefore, money could be inaccurately spent out of this fund.

Recommendation

We recommend that documentation be sufficient to show that the Class B Roads fund has been reimbursed for all costs of materials used on contract city projects.

Additional Information

Background

Class B Roads are defined as County-owned roads within unincorporated areas. For Salt Lake County, this area would include Millcreek, Magna, and Kearns. The State allocates a portion of the gas tax for Class B road construction and maintenance. The County divides the Class B Roads fund into two functional areas: "Projects" and "Maintenance." The Public Works Operations Division administers "Maintenance," and in this capacity repairs roads using materials paid for out of the Class B Roads fund. Public Works Operations also contracts with a few individual cities for their road maintenance functions. Asphalt, cement, and materials for traffic lights are charged to the Class B Roads fund.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Capital Assets
- Purchasing Card Use
- Contract Bidding
- Contract Completion
- Class B Roads cost reimbursement

Our examination period covered up to twelve months ending August 31, 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.

Management response to findings in this report, when received, will be attached as Appendix A.



Ben McAdams
Salt Lake County Mayor

Russ Wall
Public Works Director

Patrick Leary
Township Executive

**PUBLIC WORKS
OPERATIONS
DIVISION**

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November 14, 2013

Larry Decker
Sr. Deputy Auditor
Salt Lake County Auditor
2001 South State St, N3300
Salt Lake City, UT 84114

Re: Audit of the Key Controls of Class B Roads- Maintenance

Larry,

Finding #1: Computations in determining which asphalt/cement vendors to use were not documented.

These computations are done but not saved for each project.

We will include a column on the daily asphalt spreadsheet to document the computations to determine which vendor to use.

Finding #2: The ending date for a contracted maintenance project was not documented on and file.

At the time of the audit, the work for the project in question had been completed but the final quantities were still in dispute. Documentation on the completion date is typically not submitted until the final bill is paid and the project is closed out.

For future projects, the project manager will submit a form to the file documenting the start and end dates of the project upon acceptance of the work.

Finding #3: County property tags were missing for computer software.

The software in question was purchased over 15 years ago and the asset tag was probably attached to the original box and is now lost.

We will request a new asset tag and create a file for storing the information.

Finding #4: Sufficient data was lacking to support recouping of costs in the Class B Roads fund.

Currently, we bill our contract cities (Taylorsville and Holladay) monthly for 1/12 of the contract amount instead of billing actual costs every month. This makes it difficult to demonstrate that all costs are being recouped except at the end of the year.

When we rewrite the contracts for next year (July 2014) we will include monthly billing of actual costs. In addition, in 2014 we will be purchasing new software and hiring an accountant, both of which will improve our cost accounting process.

Sincerely,

Kevyn Smeltzer, P.E., Director
PW Operations

cc: Lynn Erickson, Fiscal Manager
Larry Moller, Public Works Fiscal Administrator