

A REPORT  
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of  
Environmental Health

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 Environmental Health

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Environmental Health 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 Environmental Health and the cooperation from Dr. Royal Delegge, Eric Peterson, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Environmental Health 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: Dr. Gary Edwards, Health Department Director  
Dr. Royal Delegge, Director of Environmental Health  
Brian Bennion, Associate Director  
Matthew Ferguson, Fiscal Manager  
Eric P. Peterson, Enforcement Coordinator





## Objectives

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

Our audit scope included cash handling, capital and controlled assets, and financial computer controls. Environmental Health overlooked the review and signing of voids. Voided receipts need to be saved, and signed by the cashier and a supervisor, as evidence of review. In other areas of cash handling, we noted occasional untimely deposits, a \$2,000 checking account that was not reconciled monthly, and another \$2,000 checking account that was not in possession of the custodian of record. Also, we found capital assets lacking the County property tag, a capital asset sent to surplus but not removed from the capital asset list, new capital assets not found on the Environmental Health capital asset list, and a van not listed by proper location. Though not included in the same organizational structure, the Car Seat program is housed at Environmental Health. We noted the need for more effective tracking of car seat inventories.

## Findings and Recommendations

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### *Finding # 1 - Deposits were not always made in a timely manner.*

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#### **Risk Level: Moderate**

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by §51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable, but not later than three days after receipt."

We found 12 of 30 deposits examined that were made four days after receipt of collections. Four day lapses tended to occur on Thursdays, in which case the bank posting did not occur until the following Monday.

Environmental Health management stated they were unaware of this deposit time lag. A courier retrieves the deposit each day for delivery to the bank. Environmental Health no longer has control of it once it is in the courier's possession.

When deposits are not delivered to the bank in a timely manner, funds lose interest otherwise earned and are more susceptible to theft.

***Recommendation***

We recommend that Environmental Health management review their depositing procedure with the courier to ensure that deposits are made at the bank no later than three days after collection.

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***Finding # 2 - Two items on the capital asset list could not be located.***

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**Risk Level: Moderate**

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.1 lists one of the property manager's duties as follows:

"Accounting for all capital assets within the organization's operational and/or physical custody as listed on the AFIN0801 'Salt Lake County Capital Asset Inventory by Organization' report."

During our search for all 32 capital assets, we could not locate two items, a Chevrolet van and a CISCO computer switch.

Management reported that the CISCO switch was no longer at Environmental Health and that County Information Services (IS) had removed it to replace it with a new system. In the case of the Chevrolet van, none of the personnel we talked with, including the director, remembered this vehicle being assigned to Environmental Health or ever seeing it on-site. Upon further investigation, our office found and viewed this van at the Health Department building at 610 South 200 East, where it is used by Health Administration.

When transferred or sold equipment is not removed from the capital asset list, or when equipment is not listed by correct location designation, its status or whereabouts is not readily known, and could be considered stolen, absent any other reliable information.

***Recommendation***

We recommend that a Form PM-2 be completed to remove the CISCO switch from the capital asset list.

We recommend that the capital asset list be corrected to list the Chevrolet Uplander van at its current location instead of at Environmental Health.

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***Finding # 3 - The \$2,000 imprest checking account was not reconciled monthly.***

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**Risk Level: Moderate**

Countywide Policy #1203, "Petty Cash and other Imprest Funds," Section 5.1.3 states:

"In the case of Imprest Checking/Operating Accounts, the account's bank statement balance shall be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian."

Health administrators reconciled Environmental Health's \$2,000 imprest checking account quarterly, instead of monthly. (Note: This is not the same account as the inactive \$2,000 account referred to in another finding.)

Health administration stated that the custodian was not on-site when making their monthly visit to reconcile the account, thereby resulting in quarterly reconciliation. The employee at Health Administration responsible for reconciliation stated her intent of monthly reconciliation going forward.

When imprest checking accounts are not reconciled monthly, transactions may become more difficult to account for and identify. Lack of oversight creates greater temptation to convert funds to personal use.

#### ***Recommendation***

We recommend that the Environmental Health \$2,000 checking account be reconciled monthly by an employee who is not the custodian.

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***Finding # 4 - Voided transactions were not explained or signed by authorized personnel.***

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#### **Risk Level: [Moderate](#)**

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state the following regarding processing of voided transactions:

"The cashier initiating the voided transaction will document...the cause of the voided transaction...A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void."

During our deposit examination of 30 days in 2012 and 2013, we noted 10 reversals on daily transaction reports that were not explained or signed for by either the cashier or a supervisor as evidence of review.

Environmental Health management stated they were not aware of the need for explaining reversed transactions. In all cases, these reversals represented duplicate-entered transactions requiring the reversal of one of them.

The inattention from not reviewing and signing reversals, or voids, allows for a scheme of using them to cover diversion of funds to personal use.

***Recommendation***

We recommend that voided receipts (any reversed transactions) be marked "void," signed by the cashier and a supervisor, and then saved with the day's deposit documentation.

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***Finding # 5 - A \$2,000 imprest account was not in custody of the custodian designated by Mayor's Financial Administration.***

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**Risk Level: Moderate**

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 4.1.1 states:

"Custodians are directly responsible for their imprest funds, and are accountable and may be held personally liable for maintaining the authorized imprest amount, and for operating the fund in compliance with this policy."

One of two \$2,000 imprest checking accounts at Environmental Health was not in possession of the custodian of record.

Health administration stated they removed this fund from Environmental Health, and now has it under control of an accountant in their office. According to management, the account is inactive and may be closed.

Accountability is lost when checking accounts are not in possession of the authorized custodian. Any loss of funds could thereby be attributable to the individual who did not have actual possession or control, but whose name was listed as the custodian of record.

***Recommendation***

We recommend that the \$2,000 imprest account formerly in possession of Environmental Health either be closed or reassigned to the individual who currently possesses it, using an MPF Form 2.

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***Finding # 6 - Injury Prevention administrators did not document inventories or maintain a current, detailed inventory list of car seats.***

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**Risk Level: Moderate**

Hermanson, Loeb, Saada, and Strawswor. "Auditing Theory and Practice." Homewood, Illinois: Richard D. Irwin, Inc. page 355 states:

"An effective system of documentation and of detailed recordkeeping will help produce accurate inventory reporting...[Businesses should] periodically reconcile the perpetual inventory records with the actual inventory on hand by taking a physical count."

The Injury Prevention program receives Federal grant money for distributing car seats to those in need. Car seats may be distributed free of charge or at a reduced rate based on income. The car seat inventory list stated it was current as of August 15, 2012. Additional car seats had been purchased and sold since that time. Also, while the list accounted for car seats by total number and brand, it did not include a dollar value. In addition, no count sheets were on file to show occurrence of regular car seat inventories. We note that Injury Prevention is not included within the Environmental Health organizational structure but is housed in their building.

We observed that inventory tracking is periodic instead of perpetual, since the Custom Data Processing (CDP) software does not include an inventory tracking capability. Inventory is tracked using an Excel spreadsheet. Management stated they were not aware of the need for detailed recordkeeping in maintaining .

Without conducting inventories, maintaining updated inventory lists, and assigning dollar values to items listed, car seats could easily be diverted to personal use without being detected.

### ***Recommendation***

We recommend that the inventory list be updated at least monthly for purchases, sales, or free car seat distributions, and that a dollar value be assigned to the inventory.

We recommend that a car seat physical inventory be conducted at least annually, and that the count be compared to expected amounts on hand as shown on the inventory spreadsheet.

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### ***Finding # 7 - Four new computer switches were not found on the capital asset list.***

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#### **Risk Level: Low**

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.2 states one of the property manager's duties as follows:

"Maintain records as to current physical location of all fixed assets...within the organization's operational and/or physical custody."

Four CISCO computer switches, all with County property tags attached, were not on the capital asset list designated to Environmental Health.

Management stated that IT personnel move assets within various sections of the Health Department causing them to be incorrectly listed by location on the capital asset list..

When capital assets are not correctly listed by location, they are not accounted for, and therefore become more subject to theft.

***Recommendation***

We recommend that the four CISCO switches be listed on the capital asset list by proper location at Environmental Health.

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***Finding # 8 - Automatic cash register drawers were not used in the cashiering function.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Sections 2.4.1.3 and 2.4.1.3.1 state:

"If total receipts per day exceed \$1,000, or the number of transactions processed is 100 or more, then Management shall provide an on-line register with the following features...A cash drawer that automatically opens when a sale or transaction is completed."

Cashiers used drawers that did not automatically open and required manual opening with a key each time a transaction occurred. Daily transaction totals frequently reached tens of thousands of dollars, though mostly in checks.

The Environmental Health director stated that he and his staff had discussed use of automatic cash drawers, but feels the current system satisfies their needs. While Environmental Health collections may be quite large, they are spread among four bureaus and seven cashiering stations. The utility of automatic drawers varies since collections are quite minimal at some locations, but more extensive at other locations. The greatest number of transactions occurs in the Bureau of Food Protection.

Without an automatic cash drawer, funds are less secure. Drawers can easily be left unlocked, thereby allowing for loss to occur. Also, without automatic drawers, each occurrence of the drawer opening is not recorded.

***Recommendation***

We recommend that Environmental Health management consider re-configuring their cashiering system to include locked cash drawers that open automatically when a transaction occurs.

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***Finding # 9 - Five capital assets did not have a County property tag attached.***

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**Risk Level: Low**

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.8 lists one of the property manager's duties as follows:

"Coordinate with the agency's Purchasing Clerk to ensure that all newly acquired property is identified and accountability is appropriately established, and capital assets are tagged..."

During our search for all 32 capital assets, we noted missing County property tags on 5 of them.

Management stated that they overlooked attaching, or did not receive, the property tag. Two of the five items were located at the County landfill. According to Environmental Health personnel there, one of the items, a paint can crusher, was prone to being painted over, thereby obscuring the tag.

Without the County property tag attached, assets can more easily become lost, and they cannot be adequately tracked and identified for inventory purposes.

***Recommendation***

We recommend that County property tags be attached to the five assets identified by the auditor, or that a metal tag or etched tag be attached on equipment prone to rough usage.

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***Finding # 10 - An SAQ representing Environmental Health's compliance with PCI-DSS had not been completed and was not on file.***

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**Risk Level: Low**

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy" Section 3.0, under Policy Statement states:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

Section 3.1 states:

"PCI-DSS compliance requires among other things that County agencies that accept, process, transmit or store cardholder data shall:...Complete the appropriate annual SAQ and AOC for their merchant category." AOC meaning Attestation of Compliance.

An SAQ representing Health Department management's compliance with PC-DSSI had not been completed and was not on file.

Not completing this self-evaluating questionnaire for PCI-DSS increases the risk of fines and an inability of accepting credit cards as payments.

***Recommendation***

We recommend that Health Department management complete and sign an annual SAQ and that Environmental Health keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

## **Additional Information**

### **Background**

The Environmental Health Division is divided into four separate bureaus, 1) Bureau of Food Protection, 2) Bureau of Air Quality, 3) Bureau of Water Quality and Hazardous Waste, and 4) Bureau of Sanitation and Safety. Citizens and businesses pay for various permits and inspections provided by these bureaus. For example, Food Protection issues food permits to restaurants. The Bureau of Sanitation and Safety issues permits to hotels, cosmetology, body art, and massage establishments. All four bureaus accept collections from the public at the Environmental Health building, located in Murray. With 80 employees, the Division has a 2013 budget of \$7,366,274.

### **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 May 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.





# Memorandum

**To:** Larry Decker, Salt Lake County Auditor's Office

**CC:** Gary Edwards, Royal Delegee, Eric Peterson, Kevin Condra, Ricardo Flores, Kayla Doud, Diane Okumura, Mark Maddox

**From:** Matt Ferguson, Fiscal Manager

**Thru:** Brian Bennion, Associate Director

**Date:** 11/15/2013

**Re:** Key Control Audit of the Health Department Environmental Health Division

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Thank you for providing the findings of the Environmental Health Key Control Audit. Before finalizing the report, please include our response to each of the findings below:

The first finding was, **“Deposits were not always made in a timely manner.”** In conformance with County policy, our deposits *are* made on a daily basis, “whenever practicable,” or on the following day. Hence, we’d like to offer a “counter” recommendation that the Auditors perform their tests based on the dates when deposits are *transferred to the armored truck officers* rather than the dates on which they are actually posted to the bank. Otherwise, the audits done in this area will continue to be useless, because the timing of bank postings is totally beyond our control. We would also like to point out that the Auditor’s methods for determining the level of risk are inconsistent because this same type of finding in another audit was classified as “low-risk,” not “moderate.”

The second finding was, **“Two items on the capital asset list could not be located.”** This finding was contradicted in the very explanation of it. One of the items *was* located “upon further investigation,” and the whereabouts of the other asset was likewise determined. It’s misleading to suggest that a Chevrolet van is missing just

because it's parked at a different Health Department facility. The fact is vans (and other assets containing wheels) don't always stay in one location. It's just the nature of the assets—they're used for transportation. If a different Division other than Environmental Health regularly uses the vehicle, we can easily make a note of that, but it would be ridiculous to change the location record every time the car moves. Furthermore, Fleet independently tracks our vehicles—including usage and maintenance statistics—ensuring that they are all properly accounted for.

Concerning the CISCO switch, a transfer form has since been completed, but the real question is, "How can we prevent this from happening in the future?" This may take some time to answer, because it involves more than just the Health Department. To be more specific, the County IT Department controls numerous Health Department assets if they're related to the technological infrastructure. Similarly, the Health Department controls many assets that are technically "owned" by IT. To complicate things further, it's not always obvious which high-tech assets should be capitalized.

The third issue was, "**The \$2,000 imprest checking account was not reconciled monthly.**" We make a significant attempt to reconcile this account on a monthly basis, but there are occasionally circumstances beyond our control which prevent complete compliance. For instance, the account custodian is not always present to accommodate the work. As a compensating measure, if two months pass without our being able to accomplish an "unannounced" reconciliation, the accountant schedules an appointment with the custodian. Incidentally, this is another finding in which the level of risk is inconsistent with previous risk assessments coming from the Auditor's Office (it should be "low," not "moderate").

The fourth finding was, "**Voided transactions were not explained or signed by authorized personnel.**" We will educate our staff that all reversed transactions need to be marked as "void" on the receipt, signed by the cashier, and approved by a supervisor. There may have been some confusion about the need for this procedure because there is already a corresponding record of all such transactions in CDP (our payment receiving system), so it seems like a repetitive or unnecessary step.

The fifth finding was, "**A \$2,000 imprest account was not in custody of the custodian designated by Mayor's Financial Administration.**" This discrepancy had previously been discovered but the task was delayed because the person assigned to re-submit the paperwork had left on a Career Mobility Assignment. Her replacement was in the process of making that change as this audit was being conducted and the account in question was officially closed on September 6, 2013.

The sixth finding was, "**Injury Prevention administrators did not document inventories or maintain a current, detailed inventory list of car seats.**" We concur with the recommendation to keep the inventory list current and up-to-date. Program Managers will be instructed to take a physical count of the inventories at least annually.

The seventh finding was, **“Four new computer switches were not found on the capital asset list.”** The reason is that this list is maintained by the Mayor’s Financial Administration. The Capital Assets team assigns the asset’s location based on either the *initial* location or a best guess. In either case, they are only concerned about the list on an org-level. The point is, as long as the Health Department is in possession of the asset, it’s not important exactly *where* it is. It would be unnecessarily burdensome to constantly coordinate detailed location updates, when a summary list is sufficient. For those assets that truly *are* transferred beyond the Health Department (not just moved from one Division to another), the proper forms are filled out to accurately record the transfer—except for when IT takes them without telling us, a problem already discussed above.

The eighth finding was, **“Automatic cash register drawers were not used in the cashiering function.”** The cost to comply with the letter of this policy is greater than the resulting benefits. Therefore, we have compensating measures in place to safeguard cash and maintain adequate accountability. Furthermore, we foresee a decline in overall cash handling as we move toward accepting online payments in the future.

The ninth finding was, **“Five capital assets did not have a County property tag attached.”** A reasonable effort is made to tag all capital assets. However, as already mentioned, this function is centralized under the Mayor’s Financial Administration, so we must wait for tags to be sent to us from the Capital Assets team. In the meantime, some assets remain temporarily without tags. Another challenge is that not all equipment easily lends itself to being tagged.

The tenth finding was, **“An annual Payment Card Industry Self-Assessment Questionnaire (PCI-SAQ) was not completed and on file.”** Because it takes a specialized knowledge and expertise to fill out the PCI SAQ properly, it’s not in the Health Department’s best interests to have this task performed by Environmental Health staff. For one thing, it’s unnecessarily duplicative for each Division to fill out the form separately because it’s already completed on a Health Department-wide basis. Secondly, there is no requirement for every single location to have the questionnaire on file. Therefore, we will continue our practice of centralizing this assignment through the Administration Division. In addition, the assertion that not completing this form “increases the risk of fines and an inability [to accept] credit cards as payments,” isn’t entirely true. The real risk lies in our not being able to defend our actions, if a security breach were to occur. Only in that context does completing this form reduce the risk of penalties.

In conclusion, thanks for finding areas where we can improve as a Health Department. We take this work seriously and we will institute the necessary changes to ensure that internal controls are working well. We look forward to seeing this official response included with the final audit report.