

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



An Audit of the Key Controls of
Contracts and Procurement Division

November 05, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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November 05, 2014

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 Contracts and Procurement Division

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LL.M.
Chief Deputy Auditor

2001 South State Street, N3300
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Dear Mayor McAdams:

We recently completed an analysis of the financial records of Contracts and Procurement Division 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 Contracts and Procurement Division and the cooperation from Brian Anderson, Buyer, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Contracts and Procurement Division 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 Anita C. Kasal
Deputy Auditor

cc: Jason Yocom, Division Director
Angelina Harward-Collard, Fiscal Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Contracts and Procurement Division. 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

The Contracts and Procurement Division has put into place several key internal controls for managing public funds and safeguarding public assets. Most risks identified were minor and would not be expected to result in the material loss of County property. The report of the last audit covered accounting records through September 30, 2013 and was released to the public in December 2013. Our scope included a retest of the six prior audit findings. The findings regarding the lack of internal controls over sequential receipts, balance sheets, depositing within 3 days of receipt, and bank account reconciliations were still unresolved. A new finding on the deficiencies over internal controls for segregation of duties surrounding surplus sales has a higher likelihood of leading to loss of County property.

Findings and Recommendations

Finding # 1 - Segregation of cashiering and depositing duties was inadequate.

Risk Level: High

Countywide Policy #1062, "Management of Public Funds," states in the purpose that:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment."

In our review of the cash receipting operations, we found that one employee maintained blank receipt stock, performed cashiering duties, and prepared and submitted funds for deposit without a supervisor's review.

When depositing duties are not segregated from cashiering duties and a supervisory review is not performed, funds are at a greater risk of being lost, stolen, or diverted for personal use without detection.

Recommendation

We recommend that cashiering and depositing duties be segregated or that compensating controls be put into place.

We recommend that a supervisor sign deposit documentation as evidence of review.

Finding # 2 - Pre-numbered manual receipts were still being used out of sequence.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 3.5.3 states:

"If a County Agency uses manual receipts, they shall be pre-numbered and used in numerical order."

In the previous audit conducted in 2013, we found that pre-numbered manual receipts were being used out of sequence. In a retest, we found 13 manual receipts missing from the sequence used in transactions over the last 12 months.

Failure to use pre-numbered receipts sequentially increases the risk of funds being lost, stolen, or converted for personal use.

Recommendation

We recommend that pre-numbered manual receipts be used in numerical order.

Finding # 3 - The cash balance sheet was not signed by the cashier or a supervisor.

Risk Level: Moderate

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."

In the previous audit conducted in 2013, we found that cash balance sheets were not reviewed and signed by an independent party. In a retest of deposits we found that none of the cash balance sheets had been signed by the cashier or by a supervisor as evidence of review. The cash balance sheets were only signed by Mayor's Finance to show their receipt of transferred funds.

When the cash balance sheet is not signed by the cashier or a supervisor as evidence of review, accountability for funds is not established, errors are more likely to occur, and funds may be lost or stolen without agency detection.

Recommendation

We recommend that the cash balance sheet be signed by the cashier and a supervisor as evidence of review.

Finding # 4 - Bank reconciliations were not performed.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 4.7.2 states:

"A Bank Reconciliation shall be performed at least monthly by an employee designated by Agency Management."

In the previous audit conducted in 2013, we found that none of the bank statements for the period October 2012 through September 2013 were reconciled. In a retest we found that none of the bank statements from August 2013 through July 2014 were reconciled.

On September 8, 2014 the surplus manager sent an email to the auditor that contained a report that detailed the "Public Surplus" sales for the period August 2013 to July 2014. The surplus manager agreed he would use a similar report to reconcile statements in the future.

Without bank reconciliations, any collections reported but not deposited by the third party auction company would remain undiscovered.

Recommendation

We recommend that all bank reconciliations be performed monthly.

Finding # 5 - Deposits were not always made in a timely manner.

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 no later than three days after receipt."

We found that 9 out of 47 deposits examined were deposited more than ten days after receipt of collections.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that would otherwise be accrued.

Recommendation

We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

Finding # 6 - A receipt log was not used for manual receipts.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 3.5.3 states:

"The supply of unissued manual receipts shall be secured in a safe, locked drawer, or other secure area. The first and last numbers of receipts should be verified by the Cashier Supervisor and entered into a receipt log maintained by the Agency. As blank receipts are released to Cashiers for use, the log shall be updated, accordingly."

In the previous audit conducted in 2013, we found that a receipt log was not used for manual receipts. A retest showed that a receipt log was still not used.

Without a receipt log, management cannot readily determine where the receipts are located, verify if receipts are issued sequentially, and expect accountability from cashiers for receipts released to them.

Recommendation

We recommend that a receipt log be maintained to account for all manual pre-numbered receipts.

Finding # 7 - Checks were not restrictively endorsed upon receipt.

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."

Checks were not endorsed with the agency's restrictive endorsement stamp upon receipt.

Checks that are not restrictively endorsed upon receipt are at a greater risk of misappropriation.

Recommendation

We recommend that checks be restrictively endorsed immediately upon receipt.

Additional Information

Background

The Director of the Contracts and Procurement Division is also the designated County purchasing agent. The Division approves all purchase orders, processes and approves all contracts, and researches economical purchases for the County. They request and open bids, and will convene a contractor selection committee when called for in a Request for Proposal (RFP). They are assigned to coordinate issuance of purchasing cards throughout the County, and to train cardholders. In addition, the Division operates the County Surplus Warehouse, by conducting periodic surplus sales, both through the surplus manager and two third party auctioneers. The Division has 10 employees and a 2014 budget of \$1.209M.

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
- Accounts Receivable
- Accounts Payable
- Third Party Contracts

Our examination period covered up to twelve months ending July 31, 2014. 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. Retesting of prior audit findings was also performed, where applicable.

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



November 3, 2014

Anita Kasal
Deputy Auditor
Salt Lake County Auditor's Office

Dear Anita,

Below are the Contracts and Procurement Division's responses to your audit findings.

BEN McADAMS
Salt Lake County Mayor

Sarah Brenna
Administrative Services
Department Director

**CONTRACTS &
PROCUREMENT
DIVISION**

Jason Yocom
Contracts & Procurement
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Finding 1 – Segregation of cashiering and depositing duties was inadequate.

Recommendation – We recommend that cashiering and depositing duties be segregated or that compensating controls be put into place. We recommend that a supervisor sign deposit documentation as evidence of review.

Response – Management will revise current procedures to reflect the segregation of cashiering and depositing functions. Cashiering and deposit will be performed by two separate staff members. All deposits will be reviewed and signed by a member of the Management team.

Finding 2 – Pre-numbered manual receipts were still being used out of sequence.

Recommendation – We recommend that pre-numbered manual receipts be used in numerical order.

Response – Management will reconcile issued receipts with used receipts on a monthly basis to reinforce compliance. Receipts will be used in numerical order and voided rather than thrown away.

Finding 3 – The cash balance sheet was not signed by the cashier or a supervisor.

Recommendation – We recommend that the cash balance sheet be signed by the cashier and a supervisor as evidence of review.

Response – Cash balance sheets will be signed by the cashier and will be reviewed and signed by a separate person of equal or higher authority before the deposit is made.

Finding 4 – Bank reconciliations were not performed.

Recommendation – We recommend that all bank reconciliations be performed monthly.

Response – Management and Surplus Manager will collaboratively perform reconciliations on a monthly basis to ensure accuracy and compliance.

Finding 5 – Deposits were not always made in a timely manner.

Recommendation – We recommend that funds be deposited on the same day, whenever practical, but no later than three days after receipt.

Response – Staff has always been instructed to deposit received funds within 24 hours. We will enforce new internal procedures to ensure compliance.

Finding 6 – A receipt log was not used for manual receipts.

Recommendation – We recommend that a receipt log be maintained to account for all manual pre-numbered receipts.

Response – A receipt log has been created and will be maintained by management. All receipts have been collected and are secured in a locked drawer. Management will release receipts, as needed, to the Surplus Manager, and recorded on the receipt log.

Finding 7 – Checks were not restrictively endorsed upon receipt.

Recommendation – We recommend that checks be restrictively endorsed immediately upon receipt.

Response – Endorsement stamps have been ordered and are currently being used on all received checks.

Thank you,

A handwritten signature in black ink, appearing to read "Jason Yocom". The signature is stylized with large loops and a cursive-like flow.

Jason Yocom
Division Director
Contracts and procurement Division