

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



An Audit of the Key Controls of
Milestone Housing Program

March 25, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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March 25, 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 Milestone Housing Program

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Milestone Housing Program 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 Milestone Housing Program and the cooperation from Elizabeth Bayler, Ann Stoddard, Mina Koplin, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Milestone Housing Program 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 Todd Livingston
Deputy Auditor

cc: Pat Berckman, Division Director
Elizabeth Bayler, Fiscal Manager
Mina Koplin, Program Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Milestone Housing Program. 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 Milestone Housing program has put into place several key internal controls for monitoring purchasing card use, safeguarding public assets, and managing County contracts. Risks identified are not expected to result in material loss. Our findings relate to accounts receivable. We reviewed the accounts receivable tested during the Key Control Audit of 2013. We again recommend that billing, receipting of payments, and posting of payments be assigned to separate individuals and that aging and reconciliation reports be kept on file. A report of the last audit of the Milestone Housing program was released to the public in October 2013.

Findings and Recommendations

Finding # 1 - Separation of duties and other controls over billing and receipt of payment were not adequate.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 5.4 states:

"The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payments. In the event that staffing levels prevent such a segregation of duties, a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

The October 2013 Key Control Audit found that Milestone Housing Program staff accepted rental payments, issued the client a manual receipt, handled all billing and receipt of funds, granted and approved amounts waived, and tracked payments using an Excel file without segregating duties. Youth Services Management responded that it would establish a process whereby a separate accountant would review the amounts received on a monthly basis and reconcile the amounts posted in the account ledgers in Excel and that the ledgers for the clients making payments would be printed and signed by the Accountant on a monthly basis. The accounts receivable was re-tested and again showed a failure to separate duties over billing and receipt of payment. The program manager and/or case manager still handled all billing, receiving funds, granting and approving amounts waived, and tracking of payments in an Excel file.

For effective internal control, a single employee should not be able to exclusively control a monetary transaction. The duties of individuals should be so divided as to maximize employee protection and minimize the potential for diversion of funds and/or falsification of accounts.

Recommendation

We recommend that Youth Services assign billing, receipting of payments, and posting of payments to separate individuals. In the event staffing levels prevent such a segregation, we recommend that a supervisor, or second responsible employee review and sign the monthly reconciliation.

Finding # 2 - No aging reports or accounts receivable reconciliation reports were on file.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Collection," Section 5.5 states:

"Aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner. An aged analysis of accounts receivable ledger balances (aging schedule) shall be prepared each month."

Section 5.3.2 states:

"The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step."

The October 2013 Key Control Audit found that the Milestone Housing Program failed to keep aging and reconciliation reports on file for accounts receivable. Youth Services Management responded that an Accountant would reconcile the monthly deposits and that aging reports would not be prepared. The accounts receivable was re-tested and again aging reports were not on file and reconciliations of client accounts were not conducted. Payments received from clients were entered into an excel document, but were not reconciled with the amount due or outstanding.

In response to the October 2013 Key Control Audit, Youth Services Management stated that no aging reports would be prepared since any amounts outstanding could be waived due to the potential homeless status of the clients and that there would not be any intention of attempting to receive outstanding amounts when the client leaves the program.

When accounts receivable are not included on an aging report and reconciled on a monthly basis, management may be less aware of amounts outstanding. Amounts may be waived and/or errors may occur without oversight. Misappropriation of funds may occur without detection.

Recommendation

We recommend that Youth Services consider tracking amounts owed and that a monthly aging report be generated. We recommend that the Accounts Receivable beginning balance be reconciled to the ending balance on a monthly basis.

Additional Information

Background

Youth Services Milestone Housing Project is a transitional housing program for young adults, ages 18 to 22, that are facing homelessness in Salt Lake County. Youth Services leases two apartment houses, located in West Valley City and Sandy, which they rent to participating youth. The program is staffed by one Program Manager, two case managers and one part time house manager. Program capacity is currently ten youth, but is expected to grow in size with the acquisition of a \$200,000, 5-year federal grant from the Administration for Families and Youth.

Youth Services took over the program in 2012. The first deposits of rent and utilities from clients were deposited in June, with a total of \$5,600 deposited by the end of December. Client's are eligible to receive incentive payments for meeting program goals, such as attending a workshop by the Utah Youth Mentor Program. In addition, clients that meet all program goals and that are up-to-date on their rent receive a rebate when they graduate of \$75 for each month they were in the program. Because youth in the program do not typically have a checking account, 95 percent of the time rent and utilities are paid in cash, which carries inherent risks.

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 January 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.



March 18, 2014

Roger K Larsen
Audit Division Director
Salt Lake County Auditor
2001 South State Street N3300
Salt Lake City, Utah 84114-4575

RE: Audit of Salt Lake County Youth Services Milestone Housing program

Dear Roger:

Following is the Division of Youth Services response to the Key Control Audit conducted by your office and the findings noted in the report dated March 6, 2014.

Finding #1- Separation of Duties and other controls over billing and receipt of payment were not adequate.

The original response to this finding from the previous key control audit was that the Accountant will review the amounts received on a monthly basis and reconcile with the amounts posted in the account ledgers in Excel to ensure accuracy and legitimacy. The ledgers for those clients making payments in that month will then be printed and signed by the Accountant. Unfortunately with a change in the staff accountant, a change in the program manager for this program and workload issues, this had not yet been implemented when the auditor staff performed this current key control audit.

We are currently working towards a newly formatted ledger with the new program manager to achieve this new process mentioned above. In addition, all waived rental payments will be issued a receipt of waiver to illustrate the approval for the waiver and that the client received notice of such waiver. The Accountant will also review the waiver receipt book to ensure amounts have been noted as waived in the ledger and will initial the receipts in the book to indicate they have been reviewed. The implementation is scheduled to begin in the next couple of months.

As for further separation of duties for the acceptance of rental payments from clients, handling billing, issuing receipts and tracking payments in the ledger, the limited number of staff prohibits us that capability. The Milestone Program has three administrative employees: a Program Manager, a Program Coordinator and a Case Manager. Due to such limited staffing the Program Coordinator and the Case Manager both meet with the clients on a regular basis to conduct reviews of progress, receive rental payments and issue manual receipts to clients. They are also responsible to post the payments received for clients. The new process will also include a reconciliation of amounts posted as paid in the client ledger to those transferred for deposit to the Accountant to increase internal controls.

Finding #2- No aging reports or accounts receivable reconciliation reports were on file.

As previously stated in the key control audit response from last year, no aging reports are prepared as any amounts outstanding could be waived in light of the potential homeless status of the clients in this program and the employees of this program have full authority to waive any or all portions of amounts requested based on the individual circumstances of the client. There would not be any intention of attempting to receive outstanding amounts when the client leaves the program.

Youth Services is implementing a more traceable waiver system with a waiver receipt form to be signed by the employee and the client to show that expected payments were waived and why therefore relieving the possibility of a receipt of money from the client that is then posted as waived in the ledger. The accountant will review the waiver receipt book to ensure amounts are noted as waived in the ledger on a monthly basis. The accountant will then initial the receipts in the book to indicate they have been reviewed. We view this waiver as a release of any amounts owed by the client from being outstanding thus relieving the need for aging reports per policy.

Thank you for your assistance and support. Please feel free to contact us with any questions or concerns.

Sincerely,



Pat Berckman
Division Director

Cc: Elizabeth Bayler, Fiscal Manager
Roger Gissemann, Youth Services Associate Director