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A Key Controls Audit of the Friendly Neighborhood Senior Center

We recently completed an audit of the Friendly Neighborhood Senior Center ("Friendly"). The purpose of the audit was to examine areas of financial and asset management to determine if financial records were complete, internal controls were functioning as intended, and County assets were properly safeguarded.

Our work was designed to provide reasonable, but not absolute assurance, that the system of internal controls was adequate, records current, and daily transactions valid. Since our audit included only a sample of items from the period we examined, there is a risk that we would not have discovered problems related to assets or transactions not specifically selected for our review.

Audit criteria included Countywide Policies such as **CWP 1203, "Petty Cash and Other Imprest Funds," CWP 1062, "Management of Public Funds," CWP 1125, "Safeguarding Property/Assets," CWP 7035, "Purchasing Card Authorization and Use,"** and Aging and Adult Services Division internal policies and procedures.

By its nature, this report focuses on issues, exceptions, findings, and recommendations for improvement. The focus should not be understood to mean that we did not find various strengths and accomplishments. We truly appreciate the time and efforts of the employees of the Friendly Neighborhood Senior Center throughout the audit. Our work was made possible by their cooperation and prompt attention given to our requests.

Scope and Methodology

Our audit covered the period from January 1, 2016 to December 31, 2016. However, the period may have been adjusted to include any relevant information, records, or data from outside this period, as appropriate.

The audit included an examination of assets, records, and transactions in the following areas:

- Change Funds
- Cash Handling and Daily Deposits
- Capital and Controlled Assets
- Purchasing and Proprietary Card Use

The audit objectives, findings, and recommendations, in each of the areas we examined are as follows:

Audit Objectives, Findings, and Recommendations

1.0 Change Funds

Audit Objectives:

- **Determine if the change fund is intact and maintained at the authorized amount.**
- **Determine if the change fund is properly safeguarded against theft or misuse.**

We performed a surprise count on the \$100 change fund at Friendly, and found that it was intact and maintained at its authorized amount as recorded by the Mayor's Office of Financial Administration ("Mayor's Financial Admin"). We also interviewed the staff at Friendly, and observed the change fund balancing procedures, operations, and security. Friendly uses the change fund as a convenience for patrons to change large bills into smaller denominations and coins.

Friendly serves lunches to seniors, and the center staff collect donations for the meals that are served to patrons over the age of 65. At the end of each day, the staff exchange large bills in the change fund for smaller denominations and coins collected from donations. The change fund is then counted and returned to the authorized amount, and the daily deposit is prepared. We noted that the center staff did not have a control log to record the transfer of the change fund to and from the safe each day, as required by Countywide Policy.

Finding 1.1: Employees were not signing a fund transfer log to document removal of the change fund from and return to the safe.

We found that management at Friendly did not keep an MPF Form 7, "Fund Transfer Ledger," or similar form, for center employees to sign when retrieving the change fund from and returning it to the safe each day.

CWP 1062, "Management of Public Funds," states that,

"Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox." (CWP 1062, 2.7.3, p. 7)

The purpose of a Fund Transfer Ledger, or similar log, is to document that the change fund is at the authorized amount each time that the fund is removed from, and returned to the safe, and to establish personal accountability for the change fund, while the fund is in use. By signing the Fund Transfer Ledger, an employee is attesting that all funds are accounted for, and that proper custody of the funds is maintained while they are not stored in the safe or lockbox.

A Fund Transfer Ledger is a key internal control that helps minimize the risk of theft or loss of funds due to misuse. Without a Fund Transfer Log, personal accountability for the change fund is not established, and the risk of theft or misuse of the change fund is increased. When we discussed this with management at Friendly, they were not aware of the need to document retrieval and return of funds from and to the safe using the MPF Form 7, or similar form, as required in Countywide Policy.

Recommendation

We recommend that Friendly Neighborhood Senior Center staff count the change fund and sign and date the MPF Form 7, Fund Transfer Ledger, or similar log, each time the change fund is retrieved from or returned to the safe.

Finding 1.2: The combination to the safe was not being changed annually, or at other times as required.

We interviewed the manager and staff at Friendly and found that the safe combination was not being changed annually. In addition, we noted that staff changes had occurred at Friendly, and that the safe combination was not changed as former employees had left.

CWP 1062, “Management of Public Funds,” states that,

“The combination to a safe, cashbox, or vault . . . should be changed at least once a year, and/or any time a Cashier or Cashier Supervisor with knowledge of or access to a combination is assigned new duties, transfers to another County Agency, or leaves County employment.” (CWP 1062, 2.3.5, p. 5)

We noted that there had been changes in management and regular staff at Friendly, who had access to the combination of the safe. However, we found no evidence that the safe combination had been changed when those employee changes occurred.

When the combination of the safe is not changed at least annually, or when a change in personnel occurs, County funds are at greater risk of being stolen by someone who knows the combination and thereby has unauthorized access to the contents of the safe. When we discussed this issue with management at Friendly, they were not aware of this policy, and the need to update the combination of the safe at least once a year, or when employee changes make it necessary.

Recommendation

We recommend that the combination of the safe be changed at least annually or when necessary due to changes in personnel.

2.0 Cash Handling and Daily Deposits

Audit Objectives:

- **Determine if cash handling and daily deposit procedures comply with Countywide Policy.**
- **Determine if daily cash collections and deposits are properly safeguarded against theft or misuse.**

Our audit examined whether daily collections, cash handling, and depositing procedures at Friendly complied with **CWP 1062, "Management of Public Funds."** We observed that locked donation boxes were being used, manual receipts were issued mainly for the sale of Chuck-A-Rama discount tickets, and donations were collected, counted and deposited by at least two people.

We tested a sample of 30 days of cash and check deposits by examining the "*Deposit Reconciliation Form*," which serves as Friendly's Daily Cash Balance Sheet. We observed the separation of donations from other collections such as under-age-60 meals, transportation, coffee donations, and Chuck-A-Rama discount tickets, and found proper separation of duties in Friendly's daily cash balancing procedures. We also noted that deposits were made in a timely manner as required by Countywide Policy, and that deposits were properly safeguarded against theft or misuse.

We noted no significant findings in the area of cash handling and daily deposits.

3.0 Capital and Controlled Assets

Audit Objectives:

- **Determine if capital and controlled assets are identified accurately, physically present, and accounted for properly.**
- **Determine if capital and controlled assets are properly safeguarded against loss, theft, or misuse.**

Our audit included an examination of capital and controlled asset management. **CWP 1125, "Safeguarding Property/Assets,"** establishes the policies and procedures for the proper management of County capital (fixed) and controlled assets, including procedures for accounting for, protecting, and disposing of those assets.

We obtained a copy of a listing of all capital assets at Friendly, from the County's financial system. We confirmed that the last inventory of capital and controlled assets was completed on December 23, 2016, and was reviewed and signed by the Agency's Property Manager, and the Division Director. Friendly only has two assets that meet the criteria of a capital asset, and both were tagged with the proper asset number, and were identifiable from the list of capital assets.

We also reviewed a sample of 40 controlled assets at Friendly. **CWP 1125, "Safeguarding Property/Assets,"** defines a *controlled asset* as an item of personal property having a cost of \$100 or greater, but less than the current capitalization rate. Due to their nature, controlled assets are more susceptible to theft, or conversion to personal use than capital

assets. Therefore, controlled assets require additional procedures to ensure that they are properly safeguarded against theft or misuse.

The property manager at each County organization is responsible for accounting for all controlled assets within the organization's operational and physical custody. In addition, **CWP 1125, "Safeguarding Property/Assets,"** defines an employee's duties and responsibilities when capital (fixed) or controlled assets are provided for their use.

Salt Lake County Active Aging, Inventory Control Log Guidelines, defines standard operating procedures for when a controlled asset will be tagged and listed in the Agency's inventory as an item of personal property having a cost of \$300 or greater, but less than the current capitalization rate. We noted that this guideline differs from County policy.

Finding 3.1: The controlled asset list at Friendly, did not include a computer found on-site, and lacked consistent and accurate information to be able to identify all controlled assets on the list.

We found a desktop computer at Friendly that was not included on the controlled asset list. Also, we found two instances of duplicate tag numbers on two different controlled assets, incorrect asset descriptions, and assets not at the location stated on the list. We also noted that purchase or acquisition dates were not included on the controlled asset list as well.

CWP 1125, "Safeguarding Property/Assets," states that,

"The Property Manager [at each agency] shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures . . . 'Controlled Assets Inventory Form - Organization' is used for property not readily assignable to an individual employee or which is shared by more than one employee." (CWP 1125, 4.3 and 4.3.2, p. 6)

Assets that are not accurately recorded on a controlled asset list are at a greater risk of loss or theft. Incomplete or inconsistent information on the controlled asset list creates difficulties in tracking and managing controlled assets, making it easier for loss or theft to occur. The various types of asset information, including unique tag numbers, purchase dates, and accurate descriptions all aid in the asset management process, and help prevent the risk of loss or theft.

Recommendation

- ***We recommend that all controlled assets be listed on the controlled asset list in an accurate and consistent manner.***
- ***We recommend that the Property Manager at Friendly include information on the controlled asset list that helps track and manage County assets, including unique tag numbers, accurate descriptions, purchase dates, and accurate asset locations.***

Finding 3.2: Management at Friendly was not using the "Controlled Assets Inventory Form – Employee," as required by Countywide Policy

We found that management at Friendly were not using the "**Controlled Assets Inventory Form – Employee,**" form to identify and track controlled assets that had been assigned to specific employees. Instead, management provided us with a form created by Active Aging that listed controlled assets that had been assigned to the Senior Center Manager and three other senior center employees. However, that list was outdated and no longer relevant, because it was from 2014. We noted that all four employees on the list were no longer working at Friendly.

CWP 1125, "Safeguarding Property/Assets," states that,

"[County agencies should] at least annually, conduct a physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."

In addition, **CWP 1125,** states that,

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures . . . 'Controlled Assets Inventory Form - Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual." (CWP 1125, 2.2.11, 4.3, and 4.3.1, pp. 3 & 6)

Incomplete or inaccurate controlled asset records increase the risk that those assets could be lost, stolen, or converted to personal use without being detected by the Property Manager or the staff at Friendly. When we discussed this issue with management, they did not place a high priority on using the proper forms to track controlled assets, or indicate an understanding for the importance of using a form that lists controlled assets assigned to specific employees.

Recommendation

We recommend that all assets assigned to a specific employee at Friendly are listed on individual "Controlled Assets Inventory Form - Employee," forms, and that each form is signed and dated by the employee to acknowledge that it is an accurate and complete list.

4.0 Purchasing and Proprietary Card Use

Audit Objectives:

- **Determine if purchasing and proprietary card procedures complied with Countywide Policy.**
- **Determine if purchasing and proprietary cards are properly safeguarded.**

As part of our audit process, we reviewed purchases made by Friendly using their Costco proprietary card. **CWP 7036, "Charge Cards/Proprietary,"** establishes a set of guidelines for the use and acquisition of proprietary charge cards including how to obtain a card, how to use it, safeguards, unallowable purchases, credit limits, record keeping and reconciliation, audits, and contact information if the card is lost or stolen.

We examined proprietary card transactions and documentation for 2016. If cardholders had left employment at the senior center, and their receipts were no longer on site, then we accessed documents through the Aging Services accounting specialist. We noted no significant findings in the area of proprietary charge card transactions.

In addition, we reviewed purchases made by Friendly using their County purchasing card (P-card). **CWP 7035, "Purchasing Cards Authorization and Use,"** establishes policy and procedures including the same areas as found in *CWP 7036* listed above.

We examined all transactions made during 2016 and found that all had the status of "final approval" in the County electronic system. The center manager was the only authorized purchasing cardholder. One manager left during the year and was replaced. We found that both center managers reconciled each month's transactions to their own bank statement.

Active Aging does not require pre-approval for purchases. A program manager told us that purchases can be made if center managers stay within their expenditures budget. At the close of the P-card billing cycle, one of the program managers reviews the purchases and approves them.

Finding 4.1: The purchasing cardholder did not obtain proper authorization and approval for three meal purchases from the Director.

We found three meal purchases using the P-card that included a completed Meal Reimbursement Form, but did not have the required signature of either the Division or Department Director.

Countywide Policy #1020, "County Meals," states that,

"All requests for payment (including reimbursements from petty cash accounts) shall be submitted with the attached form which contains: the date of the meeting; the location of the meeting; the type of meeting, whether a breakfast, lunch, or dinner; certification of the purpose of the meeting and the group attending in relation to county business; the total number of attendees, with employees separated from other attendees; the total payment amount requested; the signature of the person submitting the request; the date the request was signed; the signature of the Division or Department Director or Elected Official approving the request; the date approved by the official; and a copy of the bill or receipt." (CWP 1020, 6.1, pp. 2 & 3)

In accordance with Countywide Policy, the County does not provide meals for employees unless certain criteria are met. Review and approval by the Division or Department Director is a key control to help ensure that expenses for meals meet those criteria, and that they are appropriate. When not approved by a designated director, meal purchases could more likely be made for events that do not have a defined County business purpose. When we discussed this issue with the cardholder, she stated that it was an oversight on her part.

Recommendation

We recommend that purchasing cardholders use the Meal Reimbursement Form when required, and that meal expenses are reviewed and approved by the Division or Department Director.

Conclusion

We appreciate the time spent by the staff at Friendly Neighborhood Senior Center answering our questions, gathering the necessary documentation and records, and allowing us access to the center during our audit. The staff were friendly, courteous, and very helpful throughout the audit process. We trust that implementation of these recommendations will provide for more efficient operations and better safeguarding of County assets. Please feel free to contact our office if you have any further questions.

Agency Response			
Friendly Neighborhood Senior Center			
Finding 1.1: Employees were not signing a fund transfer log to document removal of the change fund from and return to the safe.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that Friendly Neighborhood Senior Center staff count the change fund and sign and date the MPF Form 7, Fund Transfer Ledger, or similar log, each time the change fund is retrieved from or returned to the safe.</i>	Agree	We have implemented the standard to sign the log when the box is removed and placed back in the safe.	10/11/17
Finding 1.2: The combination to the safe was not being changed annually, or at other times as required.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that the combination of the safe be changed at least annually or when necessary due to changes in personnel.</i>	Agree	Our safe does not currently have a combination code that is currently working, I will put in a recommendation to replace the safe so that the code can be changed annually or when there are personnel changes.	12/01/17
Finding 3.1: The controlled asset list at Friendly, did not include a computer found on-site, and lacked consistent and accurate information to be able to identify all assets on the list.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that all controlled assets be listed on the controlled asset list.</i>	Agree	Some of the county tags were skewed due to a bad format on the spread sheet. Amounts were not listed on the spread sheet.	7/3/17
<i>We recommend that the property manager include information on the controlled asset list that helps track and manage assets, including unique tag numbers, accurate descriptions, purchase dates, and asset locations.</i>	Agree	Inventory sheets have been updated to record accurate information. We will continue to ensure information added to inventory will be accurate.	7/3/17

Finding 3.2: Management at Friendly was not using the "Controlled Assets Inventory Form – Employee," as required by County policy.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that all assets assigned to a specific employee at Friendly are listed on individual "Controlled Assets Inventory Form - Employee," forms, and that each form is signed and dated by the employee to acknowledge that it is an accurate and complete list.</i>	Partially Agree	This is not something that is currently implemented in our program so I will await the direction of management on how they want to proceed.	12/1/17
Finding 4.1: The purchasing cardholder did not obtain proper authorization and approval for three meal purchases from the Director.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend that purchasing cardholders use the Meal Reimbursement Form when required, and that meal expenses are reviewed and approved by the Division or Department Director.</i>	Agree	To ensure proper steps are followed through when making meal purchases.	7/3/17