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**SALT LAKE COUNTY AUDITOR'S OFFICE**  
**CRAIG B. SORENSEN, AUDITOR**

August 29, 2003

David Stanley  
Director of Public Works  
2001 S State Street, Suite N4100  
Salt Lake City, Utah 84190-2911

Dear David:

We recently completed an unannounced count of petty cash and change funds at the Public Works 7200 South and 600 West location, where Fleet, Operations and Sanitation are housed. We also audited cash receipting and depositing, fixed and controlled assets and accounts receivable. Our findings were generally positive, but there are some areas that need improvement. Findings and recommendations are discussed below:

### **CASH RECEIPTING AND DEPOSITING**

We found cash receipting and depositing to be in compliance with Countywide Policy 1062, "Management of Public Funds." Checks were restrictively endorsed upon receipt and bank deposits were made within three days of cash being collected. Our surprise count of the \$100 change fund at Sanitation showed it to balance within 75 cents. The \$15,000 imprest checking account managed by Operations balanced without exception and vouchers were filled in, properly authorized and earmarked for appropriate purchases. Our review of deposits made by the three divisions revealed very few overages and shortages. Collections made by Fleet and Operations are generally in the form of a relatively few, larger dollar amount checks received by mail. Therefore most of our findings in the area of cash receipting relate to Sanitation's collection of large quantity, small-dollar amount collections from individuals for trailer rentals and other services. Our findings are as follows:

- **Proper ID was not recorded on checks accepted by Sanitation.**
- **Despite cash receipts in excess of \$1,000, Sanitation was not using an on-line cash register.**
- **Sanitation was not using cash balance sheets or over/ short logs.**

- **The person responsible for billing was not separated from the individual preparing deposits in the Operations and Sanitation divisions.**
- **\$200 of the \$15,000 imprest checking account, retained in cash for parts purchases, was commingled with personal funds.**
- **Voided receipts for Operations and Fleet were not being approved by a supervisor.**

**Proper ID had not been recorded on checks accepted by Sanitation.** Countywide Policy #1301, "Acceptance of Checks," requires that a valid form of ID (driver's license, Utah identification card or check guarantee card) be obtained prior to acceptance of checks. Section 4.2 states, "*When a valid form of identification is provided, the following information should be documented on the front of the check: expiration date of identification card and either account number, guarantee number or driver's identification number.*" A large portion of the checks received by Sanitation arrive by mail and therefore the opportunity to record an ID number does not exist. However, many of the checks we examined during our unannounced count had been remitted in person.

A properly recorded ID number aids collection efforts in the event that a check is presented for insufficient funds. Sanitation's risk of bad debts relating to check collections is already quite low because amounts owed to the County can simply be attached to the citizen's property tax assessment. Sanitation may want to apply for an exception to Countywide policy, based on this set of circumstances.

#### **RECOMMENDATION:**

***We recommend that Sanitation record a driver's license or other form of ID on checks received in person, or that they apply for an exception to policy.***

**Despite cash receipts in excess of \$1,000, Sanitation was not using an on-line cash register.** Currently, Sanitation is issuing handwritten receipts for payments received at the Sanitation office, and collections are stored in a lock box. Countywide Policy #1062, under Section 2.3.1.2 states, "*If total cash receipts are less than \$250 per day, or less than fifty transactions per day, a secure cashbox may be adequate. If total cash receipts are from \$250 to \$1000 per day, an off-line register with a locking cash drawer that produces a detail tape and double receipt tape is recommended... If receipts exceed \$1000 per day, an on-line register... is recommended.*" During the course of our review we noted the daily deposit total exceeded \$1,000 in 37 percent of the days examined. While the dates in our sample of deposits ended in March of 2003, Sanitation personnel indicated that they have received an unusually high volume this summer due to the implementation of a new curb recycling program, which requires residents to prepay the first year. Subsequent years become a routine addition to the individual's property tax notice. These additional receipts should slack off as charges for recycling cans become part of individual property tax bills, but they may also be part of a general trend toward higher volume for the division.

#### **RECOMMENDATION:**

***We recommend that Sanitation analyze their transaction volume and consider upgrading from a lock box to an on-line or off-line register.***

**Sanitation was not using cash balance sheets or over/ short logs.** Sanitation receives payments for services through the mail, and over the counter. Deposits consist of both cash and checks. Each deposit examined was well documented and matched to a computer printout listing each transaction. This form does not, however, contain all of the information required by Countywide Policy #1062, Section 3.7.3 which states, "*Daily Balancing Procedures: 3.7.3.1 Each day, all county agencies should balance collections to register (or receipt log) totals and prepare a deposit, using MPF Form 3 or a facsimile developed for the specific agency. 3.7.3.2 Change funds should be counted, restored to the established imprest balance, and shorts and overs recognized and recorded on MPF Form 3, and on MPF Form 10, CASH OVER/SHORT LOG.*"

Since the Daily Cash Balance form is primarily designed to account for cash collections, its use may not be warranted in Operations and Fleet where only checks are collected. Fleet's fiscal manager uses a computer-print out which lists the dates and amounts of the checks, receipt numbers and total. He then matches these amounts to what was received in the mail and what was deposited and documents his review with a signature. Operation's fiscal manager also ensures that the deposit matches the amount received in the mail and attaches matching invoices to the deposit back-up. Her review is not documented by a form or signature, however.

#### **RECOMMENDATION:**

*We recommend that Sanitation implement the use of daily cash balance forms and monthly over/short log to record each daily occurrence of an over or short.*

**The person responsible for billing was not separate from the individual preparing deposits in the Operations and Sanitation Divisions.** In Operations we noted that for 20 out of the 35 deposits of checks received in the mail that we examined, the individual preparing the deposit was also the one responsible for billing and entering payments on accounts—a situation reflecting a lack of proper separation of duties. This control weakness was partially mitigated by two factors. A separate individual opens the mail and receipts all checks, and the fiscal manager for Operations reviews all deposits and matches the amounts received to invoices. In addition, an individual not involved in billing has been preparing deposits over the last several months. Operations has indicated they will continue to assign the depositing responsibility to this person. Whenever possible billing and receipting functions should be separated in order to prevent any one individual from exclusively controlling a transaction.

In Sanitation, the person billing for trailer rentals and other services is the same as the person who prepares all of the deposits and enters payments received against individual accounts. This control weakness is mitigated because separate individuals open and log in all payments received by mail, and issue receipts for payments made over-the-counter. With limited staff, Sanitation may find it difficult to separate out billing and depositing. In instances of limited personnel, additional supervisory review is recommended. If an independent person verifies that all receipt numbers issued for checks received in the mail and over-the-counter are included in amounts deposited and applied as payments to accounts, this control weakness will be further mitigated.

#### **RECOMMENDATIONS:**

- 1. We recommend that Operations continue to assign deposit preparation to a person independent of billing.*

2. ***We recommend that an individual not involved in billing be assigned to prepare Sanitation's deposits, or, alternatively, that greater supervisory review of amounts deposited be implemented.***

**\$200 of the \$15,000 imprest checking account, retained in cash for parts purchases, was commingled with personal funds.** As a matter of procedure Public Works (PW) maintains a \$200 parts runner fund, created and operated with money from their \$15,000 imprest checking account. The fund, located in the PW auto repair shop parts department, is used to purchase parts for vehicles as needed.

When we went to verify the parts runner fund the custodian indicated that the \$200 was usually kept in a cash box in a locked filing cabinet. However, upon our request to count the fund, the custodian removed the money from his personal wallet. Cash in his wallet totaled \$144. In addition, receipts totaling \$75.71 were found in the cash box, resulting in a cash/ receipt total of \$219.71. The custodian stated that he keeps the money in his wallet throughout the day while he is running for parts. Keeping petty cash in a person's wallet could create confusion between personal funds and County designated funds, and result in financial losses to the County. Therefore, this practice should be discontinued, and all parts purchases should be made from petty cash maintained in a designated lockbox.

#### **ACTION TAKEN:**

***The Parts Runner Fund has been eliminated. All parts costing under \$200 are purchased through the petty cash fund.***

**Voided receipts for Operations and Fleet were not being approved by a supervisor.** Countywide policy #1062, Section 3.5.2.1 states, "*When errors are made on receipts, corrections, strikeouts, changes, erasures, and alterations of any kind, are prohibited. The erroneous receipt should be voided, and a correct receipt issued.*" The policy goes on to say in Section 3.5.2.2, "*When it is necessary to void a receipt, all copies will be marked 'void,' including the original (customer) copy, if available. The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void. The voided receipts will be filed in proper numerical sequence and kept for audit purposes.*"

The receptionist for Operations opens the mail and receipts payments for both Operations and Fleet. All copies of voided receipts were being maintained and clearly marked void, in accordance with policy. However, no supervisor was reviewing and initialing the transaction.

#### **RECOMMENDATION:**

***We recommend that Operations obtain the authorizing signature of the Fiscal Manager on all voided transactions.***

#### **FIXED AND CONTROLLED ASSETS**

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County fixed and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." A fixed asset is an item of real or personal property owned by the County, meeting the

criteria for capitalization, having an estimated life expectancy of more than one year and a cost equal or greater than \$5,000. A controlled asset is a personal property item, which is sensitive to conversion to personal use, having a cost of \$100 or greater, but less than the current capitalization rate. Personal communication equipment, such as cell phones, are easily subject to conversion to personal use and therefore considered controlled assets regardless of cost.

We did not review vehicles that are part of Fleet's fast rotation program. These assets generally cost greater than \$5,000 but are not considered fixed assets and are not depreciated on the County's financial statements. In addition, fixed asset trailers maintained by Sanitation were not physically observed due their current use at the homes of individual citizens. It is important to note that Sanitation was able to provide a list of each trailer's current location on demand. The possession of these assets will be verified in the Fall as trailer rentals diminish. Our findings and recommendations with respect to the remaining fixed and controlled assets are as follows:

- **None of the three divisions reviewed were tracking controlled assets.**
- **Some vehicles listed on Fleet's fixed asset report were recorded at the wrong location, and two had been sold.**

**None of the three divisions reviewed were tracking controlled assets.** Countywide policy #1125 states in Section 4.3, *"The Property Manager shall maintain records to manage controlled assets using the following forms . . . '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. . . '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."* The policy goes on in Section 4.3.6 to state, *"Although it may be impractical to define exact locations on the forms in circumstances where property is used by more than one employee, or where it is frequently moved or reassigned, Property Managers should use exact locations whenever possible (and update them as needed) to established better control."*

Both Fleet and Sanitation have experienced turn-over in property managers, and the two current property managers in those divisions have been in place less than one year. At the initiation of our audit, the Fleet property manager was in the process of generating a list of controlled assets and by the end of our audit had supplied one containing computer equipment and cell phones. Fleet's property manager also indicated that she was working with the Fleet maintenance manager to develop guidelines regarding a list of controlled asset tools and equipment. During our audit, Sanitation's property manager also began generating a list of controlled assets, including computer equipment and printers.

The Operations property manager expressed his understanding, through the Auditor's Office, that tracking of controlled assets was no longer required. This misunderstanding may have arisen due to the fact that organizations are not required to turn in an annual inventory of controlled assets and a comprehensive list of controlled assets is not maintained centrally by the Auditor's Office, as is the case with fixed assets. Nevertheless, Countywide policy #1125 remains unchanged in its requirement that a comprehensive list of controlled assets be maintained by each division and an annual inventory be performed.

**RECOMMENDATION:**

*We recommend that Fleet and Sanitation continue their efforts to generate a comprehensive list of controlled assets and that Operations also compile a list of controlled assets.*

**Some vehicles listed on Fleet's fixed asset report were recorded at the wrong location, and two had been sold.** Fleet manages vehicles for agencies throughout the County. We sampled 39 Fleet assets, 24 listed as being located at 7200 South and 15 listed as being located at various locations throughout the County, such as Fire Stations, the Sheriff's Office or Animal Services. Out of the 24 sampled assets listed as being at 7200 South, eight were located elsewhere. Another two assets had been sold and one was a computer software program no longer in use by the division.

One of the two assets that had been sold was a 1994 police sedan, which was auctioned off through the Sheriff's Office in June of 1999. The Fleet property manager indicated that this asset should have been listed under the Sheriff's Office originally. The second sold asset was a 1981 GMC truck, which was sold by County surplus in August of 2001. According to the previous County surplus manager, the truck was left unclaimed at the surplus lot and remained there for at least two years prior to being sold for scrap. The Fleet property manager speculated that it may not have been removed from the fixed asset report due to two numbers being inverted in the County's record of the VIN number on the centralized fixed asset list.

Fleet manages its own database of assets for use in tracking, maintaining and fueling vehicles. This system was found to accurately reflect the current status and location of the sampled assets. The differences arose on the County's centralized list of fixed assets. Fleet's property manager is currently in the process of performing a comprehensive inventory of fixed assets, as requested by the Auditor's Office of all County organizations.

**RECOMMENDATION:**

*We recommend that Fleet continue its efforts to update the County's centralized list of Fleet's fixed assets.*

**ACCOUNTS RECEIVABLE**

Accounts receivable in Sanitation are due to outstanding obligations on trailer rentals by individuals for disposal of bulk waste, and garbage collection service for larger, commercial accounts. As previously stated, Sanitation has very few bad debts; amounts owed by individuals can be added to their property tax and commercial accounts have historically been paid promptly and in full. Fleet bills for purchases of County vehicles. Operations bills cities for services such as traffic signal repair and also bills developers for various services.

Operation's aging report for June 2003 showed outstanding accounts receivable of \$176,616. Seventy-nine percent of these were under 30 days out, 12 percent fell between 31 and 60 days out, 2 percent were between 61 and 90 days out and, finally, 7 percent were older than 91 days--ranging back to October 2001. Operations personnel demonstrated a strong knowledge of the status of older accounts and explained ongoing collection measures.

Fleet's accounts receivable customers consist of other government entities, such as police departments. All government customers are required to have a valid purchase order before Fleet will accept their order. Fleet also sells vehicles to dealerships, but will not let non-government agencies take possession of the vehicle or title until a cashier's check is remitted. These types of transactions do not, therefore, qualify as receivables. Fleet's accounts receivable aging report for July 2003 showed \$799,950 outstanding. All balances were under 30 days outstanding—ranging from zero to twenty days out. Fleet's management has taken a proactive role in strengthening the collect ability of accounts receivable, which has been effective in preventing collection problems experienced in the past.

Our findings in the area of accounts receivable are as follows:

- **None of the three divisions reviewed has a written policy for accounts receivable.**
- **Sanitation does not currently have the capability of generating an aging report of accounts receivable.**

**None of the three divisions reviewed has a written policy for accounts receivable.** All three divisions have internal, verbal collection policies covering accounts receivable. Each division also demonstrated that consistent effort was made to ensure that amounts owed to the County were being collected. None of the divisions we visited, however, had documented their collection policies in a written form.

#### **RECOMMENDATION:**

*We recommend that Sanitation and Operations document accounts receivable policies in written form.*

**Sanitation does not currently have the capability of generating an aged report of accounts receivable.** Sanitation's invoices are created by hand in excel, and are then entered into Sanitation's computer program under each individual's property tax record. Sanitation currently uses a Report Writer program to generate a report of payments entered each day, which is then matched to deposit records and retained on hand. Unfortunately, the current system does not feature an aging report, or any summary report of amounts currently outstanding. Sanitation personnel indicated a willingness to begin creating an aging report by hand-entering amounts billed into a spreadsheet and manually tracking and aging amounts outstanding.

Sanitation's receivables are largely composed of a large quantity of individuals owing relatively small dollar amounts. We therefore believe that a manually-created aging report would be inefficient and overly burdensome for an already busy staff. It may be possible for members of the County's Information Services department to assist in programming additional features of the current Report Writer system to allow for an aging report and to possibly allow for greater automation of the billing process itself.

#### **RECOMMENDATION:**

*We recommend that Sanitation explore ways to generate an aging report, and to more fully automate the process of billing.*

David Stanley, Director  
Public Works  
August 18, 2003  
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We wish to express our appreciation to your staff, we were impressed with their control-conscious attitude, willingness to be of assistance and to listen to suggestions for improvement. We trust our work will be of benefit to you as you implement recommendations in this letter. If you have any questions, please contact me.

Sincerely,

James B. Wightman, CPA  
Director, Audit Division

Cc: Kevyn Smeltzer  
Nick Morgan  
Denny Mecham