



SALT LAKE COUNTY AUDITOR'S OFFICE

SEAN THOMAS

Auditor

December 8, 2004

Richard L. Chamberlain, Director
Contracts and Procurement Division
2001 South State Street, Suite N4500
Salt Lake City, Utah 84190

RE: Surplus Property Management

Dear Richard:

The Surplus Property Management Section of the Salt Lake County Contracts and Procurement Division exists to dispose of personal property items received from County agencies. Once received, surplus goods are offered internally to County organizations, and then offered for sale in a public auction if these organizations do not want them. We completed an audit of the Surplus Property Management Section that comprised a review of cash receipting and depositing, and fixed and controlled assets.

For each of these areas we addressed the effectiveness of internal controls and the processes employed by personnel, to determine compliance with Countywide policies. Our work was designed to provide reasonable, but not absolute, assurance that controls were adequate and appropriate according to prescribed management policies, asset records current and monetary transactions valid. The reader, therefore, should not assume that processes not discussed here are in compliance with Countywide policy.

CASH RECEIPTING AND DEPOSITING

During our audit of cash handling procedures, we were pleased to find receipting and depositing records, and security for petty cash and change funds, in good order. The change fund was in the authorized amount and secured as required by Countywide policy. However, cash handling issues of concern that came to our attention during the audit are addressed in the following findings.

- **The change fund custodian listed on the Petty Cash Report was not the same as the employee currently using the fund.**
- **The MPF Form 11, Cash Over/Short Log was not used as required by Countywide policy.**
- **A balance sheet was not being prepared on the same day the surplus sale concluded.**
- **Voids were not documented as required by Countywide Policy.**

The change fund custodian listed on the Petty Cash Report was not the same as the employee currently using the fund. The custodian listed on the latest Salt Lake County Petty Cash and Other Imprest Accounts report maintained by the Salt Lake County Auditor's Office did not reflect the person currently using the fund, and in fact the Auditor's Office had not been notified for several years of custodian changes as they had occurred.

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 4.1, states, "*Designating a Custodian, and any subsequent changes of custodians, shall be processed by completing the MPF form 2...*" This form was given to the current custodian for preparation and submission to the Auditor's Office.

Action Taken

The MPF Form 2 has been submitted to the Auditor's Office to update the record to show the current change fund custodian for the Surplus Property Management Section.

The MPF Form 11, Cash Over/Short Log was not used as required by Countywide policy. There were overs or shorts in surplus sales receipts, but most of the discrepancies were minimal. In one instance where the difference was substantial, the surplus manager addressed a memo to the Director of Contracts and Procurement to explain the circumstances surrounding the loss. Even though overs and shorts are recorded on the balance sheet, Countywide policy still requires completion of the over/short log. Countywide Policy #1062 "Management of Public Funds," Section 2.5.3, states, "*All overages and shortages regardless of the amount must be recorded and reported daily by the agency on MPF Form 11 CASH OVER/SHORT LOG.*" Sections 3.7.3.2 and 5.2 contain additional information for usage of the form.

MPF Form 11 provides a standard method for each cashier to record and sign for their over/shorts, and gives management vital information in determining whether balancing problems warrant personnel action or additional training. Failure to use MPF Form 11 violates Countywide policy and provides an atmosphere of greater temptation

for employees to embezzle funds, in addition to a lack of adequate documentation for managers to monitor and evaluate overs and shorts for any theft.

RECOMMENDATION:

We recommend that the MPF Form 11 CASH OVER/SHORT LOG, be used as required by Policy #1125.

A balance sheet was not being prepared on the same day the surplus sale concluded. At the conclusion of surplus sales, which are held on Saturdays, the proceeds are counted by the cashier and manager and then placed in the small safe at the site, along with the receipt copies. However, no balance sheet is prepared at that time, and the cashier and manager do not sign any documentation to attest to the amount collected and counted. The following Monday, the manager picks up the proceeds and receipts from the safe and takes them to her office where she prepares the deposit balance sheet.

Policy #1062, Section 3.7.3.1, states, “*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 for the specific agency*” The form should have signature lines for the cashier and for the individual who verifies the counts.

Cashiers should prepare an MPF Form 3 balance sheet, or equivalent, immediately upon closing out at the end of the day. Cashiers should sign the balance sheet as evidence of their completion of this process. A copy could be placed with the proceeds in the safe, and another one retained by the manager. The balance sheet serves as a record of funds collected, and has the added benefit of providing evidence of the amount of funds stolen in the unlikely event that a theft would occur over the weekend before the deposit is prepared.

On Monday following the sale, the manager could prepare her balance sheet as she is now doing and attach the cashier’s signed balance sheet to the copy of the manager’s balance sheet that remains with the office file. Such practice would protect all employees involved if missing funds ever became an issue. Also, it would show that management review is in place for audit purposes. As a reminder, best business practices suggest second party confirmation of each step in a cashiering process.

RECOMMENDATION:

We recommend that a cashier’s balance sheet be prepared following each surplus sale as required by Policy.

VOIDS WERE NOT DOCUMENTED AS REQUIRED BY COUNTYWIDE POLICY. Voided receipts were marked “void,” but sometimes no written explanation was included on the receipt, nor was it signed by the cashier and authorized by the manager.

Policy #1062, Section 3.5.2.2, states, “*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 problem with not documenting the cause, and failure to receive a supervisor’s review and approval, is that a cashier could produce a void to conceal a theft of funds. Therefore, an explanation and supervisor’s review and signature, in addition to the cashier’s signature, should appear on the voided receipt.

RECOMMENDATION:

We recommend that the reason for voided transactions be written on the voided receipt itself, and that both the cashier and manager sign the void as evidence of adequate review and approval.

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 defined as 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 to 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 threshold amount. Personal communication equipment, such as a cell phone, is considered a controlled asset regardless of cost.

From the list of “Fixed Asset Inventory,” AFIN 806, provided by the Auditor’s Office, we determined that there was only one asset assigned to the Surplus Section, a forklift located at the surplus warehouse, which we verified. Gayle Morton, the surplus manager, provided us with evidence that she is a certified forklift operator.

We also secured a copy of the controlled assets list for Contracts and Procurement, and based on our examination found the following:

- **None of the controlled assets located at the Surplus Warehouse were on the Contracts and Procurement Division controlled assets list.**

- **The Controlled Assets Inventory Form – Organization substitute form was not in an acceptable format.**
- **The Controlled Assets Inventory Form – Employee was not being used.**

None of the controlled assets located at the Surplus Warehouse were on the Contracts and Procurement Division controlled assets list. The controlled assets list did not distinguish between surplus warehouse items, and items located in other areas of Contracts and Procurement. The surplus manager, together with our auditor, conducted an inventory of the warehouse. They located several items that would fit the description of controlled assets including a copier, printer, CPU, small safe, a cash register and a laptop computer, and provided the list of these items to the Contracts and Procurement property manager. (Exhibit A)

Policy #1125, Section 2.2.11, states, *“At least annually, conduct physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization...”* The Surplus Section was not conducting annual inventories of fixed and controlled assets. Failure to comply with policy by not conducting these inventories and making certain that all assets are identified, provides the potential for loss of assets and violates the requirement in Countywide policy that the property manager account for all assets.

RECOMMENDATION:

We recommend that a thorough annual physical inventory of controlled assets be conducted at the warehouse location.

The Controlled Assets Inventory Form – Organization substitute form was not in an acceptable format. The controlled asset list kept as a computer spread sheet has columns for the person assigned the asset, another for the fixed assets number, one for controlled asset or serial number, and one for the description.

Policy #1125, Section 2.2.8, states, *“Property Managers duties: Coordinate with the organizations Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established...”* Sections 4.3 and 4.3.2, state, *“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 – Organization is used for property not readily assignable to an individual employee or which is shared by more than one employee.”*

The format in use by the agency needs to be expanded to include as a minimum, the cost and the acquisition dates of items listed. A blank copy of the exhibited form was left with the Contracts and Procurement property manager as a guide to correct the agency spread sheet.

By not following policy, essential information for control and planning for the acquisition of future assets is lacking. Not showing purchase dates, for example, can lead the auditor to assume that annual inventories are not being taken if no recent purchase dates are reflected on the controlled list.

RECOMMENDATION:

We recommend that the controlled assets list contain substantially the same information and fields as required by Policy #1125.

The Controlled Assets Inventory Form – Employee, was not being used. Controlled assets are listed by the employee name to which they are assigned. However, the spread sheet used to list controlled assets does not provide a signature line where employees can sign for these assets assigned to them. Policy #1125, Section 2.3.4, states, “*Upon termination, transfer, or at least annually, employees assigned fixed or controlled assets shall review the list of assigned assets and provide verification (by his/her signature) to the Property Manager as to the accuracy and completeness of the list.*”

Further, Section 2.3.1 states, “*Exhibit 3 – ‘Controlled Assets Inventory Form – Employee’ is used for those assets which, due to their nature, are used by (and therefore readily assignable to) an individual.*” The list in use needs to conform to the exhibit and be formatted to provide for the information required by policy, including an employee signature line. Employee signatures for each assigned item should be obtained on an annual basis. A blank copy of the form (Exhibit 3) was left with the Contracts and Procurement property manager as a guide to accomplish the needed changes. Failure to use the form as required circumvents the obligation of the employee as well as their responsibility to formally acknowledge control of assets assigned to them.

RECOMMENDATION:

We recommend that all employees that have assets individually assigned to them complete the Controlled Asset Inventory Form – Employee or a form that contains substantially the same information, and moreover, that the employee review and sign this form annually.

Richard L Chamberlain, Director

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We appreciate the cooperation and assistance received from Contracts and Procurement staff during our audit, and the opportunity to have been of service, and hope that the information presented here will be beneficial to your office in clarifying how issues addressed in Countywide policy should be applied by your office. If we can be of further assistance to you please contact us.

Sincerely,

James B. Wightman CPA
Director, Internal Audit Division

cc. Gayle Morton

Controlled assets list additions as of 10-06-04
 Surplus Property Management

| Tag number | Description | Make/Serial/Model | Cost | Purchase date | Location | Status |
|-------------------------|------------------|--|------|---------------|--------------|--------|
| | | | | | | |
| Old Fixed tag #97688 | Copier | Canon Model N6035F Serial VQG00939 | | | warehouse | in use |
| N/A | Printer | Hewlett Packard Laser Jet 4L serial USCC486470 | | | warehouse | in use |
| Old Fixed tag #94595 | CPU | National Serial 960711070-8 | | | warehouse | in use |
| N/A | Small Floor Safe | Sentry Model 2260 | | | warehouse | in use |
| N/A | Cash Register | Royal 480nx Serial 50612429 | | | warehouse | in use |
| | | | | | | |
| | | In possession of Gayle Morton | | | | |
| | | | | | | |
| Old Fixed Tag #97162 | Laptop Computer | Compaq Armada w/removable disk drive and case Serial I791CHS20058 | | | Gayle Morton | in use |

Exhibit A