

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



An Audit of the Key Controls of
ESR-Statutory Benefits

April 16, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

Audit reports are available at
<http://auditor.slco.org/cfml/IntAudit/IntAuditPubs.cfm>



April 16, 2013

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 ESR-Statutory Benefits

Dear Mayor McAdams:

We recently completed an analysis of the financial records of ESR-Statutory Benefits 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 ESR-Statutory Benefits and the cooperation from Brett Carlson, ESR Accounting Manager, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to ESR-Statutory Benefits 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 Brenda Nelson MBA, CISA
Sr. Deputy Auditor

cc: Lance Brown, Director of Planning and Budget
Brett Carlson, ESR Accounting Manager

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LLM
Chief Deputy Auditor

2001 South State Street, N3300
PO Box 144575
Salt Lake City, UT 84114-4575

(385) 468-7200
(385) 468-7201 / fax
GHawkins@slco.org



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of ESR-Statutory Benefits. 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

Most of the activities housed in budget organization 5302, Employee Service Reserve-Statutory Benefits, do not include those within the scope of a key control audit. No payroll, accounts receivable, assets, or imprest accounts were present. Two checks were received and deposited during 2012, totaling \$9,727. Controls over the receipt and transfer of those checks for deposit were the subject of our review. Additional information, findings, and recommendations follow.

Findings, Recommendations, and Management Responses

Finding # 1 - 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. This procedure restricts the disposition of the check for deposit only, to the Agency's authorized bank account."

Two checks were received in 2012 and were not restrictively endorsed until received by Mayor's Office- Financial Administration Section just prior to being deposited. Both checks were originally received by another County agency and should have been endorsed by that agency when they were first received. In addition, we noted that one of the checks was dated February 9, 2012 but was not deposited until May 15, 2012. At one point this check was returned to the issuer pending further discussion with the County about the amount due. The second check was dated September 21, 2012 but was not deposited until October 12, 2012. Because the checks were not endorsed, funds were at greater risk in the interim. In addition, County policy requires funds to be deposited within three days of receipt. Because the date the check was originally received was not available, we did not include deposit timeliness as a separate finding. It is not known how long the checks were held by the Cities prior to being sent to the County. Nevertheless, we want ESR staff to be aware of the requirement.

When checks are not restrictively endorsed upon receipt, funds are at greater risk of being lost, stolen, or diverted to personal use. Failure to deposit checks in a timely manner exacerbates this risk.

Recommendation

We recommend that checks be restrictively endorsed upon receipt.

We recommend that funds be deposited daily whenever practicable, but not later than three days after receipt.

Management Response

Management concurs with the recommendation to restrictively endorse checks upon receipt. This recommendation has been implemented. ESR Fund fiscal staff will restrictively endorse all checks upon receipt and make deposits daily whenever possible but no later than 3 days after receipt.

Finding # 2 - Documentation establishing accountability for checks transferred between agencies was not created.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.3.2.2, states:

"The Cashier or Agency Fiscal Manager will review and approve the deposit documentation with the employee taking the funds to the [Mayor's] Office for receipting. The employee should require a signature from the [Mayor's Office- Financial Administration] on an MPF Form 7A, Fund Transfer Receipt, or other deposit documentation, indicating receipt of funds."

Documentation establishing accountability for checks transferred between agencies was not created. Two checks totaling \$9,727 were received by the Employee Service Reserve Accounting Manager and recognized as revenue in budget organization 5302. Both checks were the result of interlocal agreements between the County and a city, where an employee of the city was transferred to the County. The cities then paid the County all or a portion of the value of the employee's accrued sick or vacation benefits. Both checks were transferred between different County Agencies prior to deposit. In no case were signatures agreeing to the amount and date of the transfers obtained.

When accountability for funds is not documented, funds are at greater risk of being lost, stolen, or diverted to personal use. Form MPF 7A is designed to provide accountability for funds during transfers between employees or agencies.

Recommendation

We recommend that Form MPF 7A, "Funds Transfer Receipt" or similar documentation be used whenever funds are transferred between employees or agencies.

Management Response

Management concurs with the recommendation to document the transfer of funds between other agencies and ESR Fund fiscal staff. This recommendation has been implemented. ESR Fund fiscal staff will prepare document transfer forms and require signatures whenever funds are exchanged between offices or employees.

Additional Information

Background

Budget organization 5302, Employee Services Reserve- Statutory Benefits is used to account for benefits that are statutorily mandated by State and Federal law, such as FICA and Medicare Payroll taxes. The budget includes self-insured unemployment benefits, worker's compensation and industrial insurance claims, retirement plan contributions and adjustments, and deferred compensation (401K and 457). The ESR fund also houses reserves for County employee vacation and sick leave liability.

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

Our examination period covered up to twelve months ending December 31, 2012. 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.