

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



An Audit of the Key Controls of
Mayor Operations

August 07, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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August 07, 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 Mayor Operations

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Mayor Operations 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 Mayor Operations and the cooperation from Javaid Majid, Associate Fiscal Administrator, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Mayor Operations 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 Cherylann Johnson MBA, CIA, CFE
Sr. Deputy Auditor

cc: Darrin Casper, Chief Financial Officer
Greg Folta, Fiscal Administrator
Javaid Majid, Associate Fiscal Administrator

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Mayor Operations. 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

Mayor Operations has put into place some internal controls for managing public funds and assets. However, some risks and areas of non-compliance were identified. Most were minor and would not be expected to result in the material loss of County assets. Risks related to inadequate controls over controlled assets have a higher likelihood of leading to loss of County property. In addition, controls over software inventory need improvement.

Findings and Recommendations

Finding # 1 - A "Controlled Assets Inventory Form - Employee" was not available for some employees.

Risk Level: Moderate

Countywide Policy #1125, "Safeguarding Property/Assets," Section 4.3 states:

"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."

Twenty employees in Mayor Operations were assigned controlled assets. However, five had not completed and signed a "Controlled Assets Inventory Form - Employee" for assets, such as computers and monitors, that were assigned to the individual employees.

When the "Controlled Assets Inventory Form - Employee" is not used, there is no accountability for the controlled assets in each employee's possession. Failure to track which employee is responsible for assets that are individually assigned increases the risk of asset misappropriation and loss.

Recommendation

We recommend the Property Manager complete a "Controlled Assets Inventory Form - Employee" for each employee who is individually assigned controlled assets. All employees who are assigned controlled assets should review and sign the form to indicate their verification of the assets.

Finding # 2 - The controlled assets inventory lists were not properly updated.

Risk Level: Moderate

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2 states:

"Property Manager's Duties – duties may be appropriately delegated to a subordinate; however, consistent with basic management principles, Property Managers and County Administrators remain ultimately responsible for management of County Property."

Section 2.3 states:

"Employee's Duties – All employees assigned fixed or controlled assets for their use are responsible for the following:

2.3.1 Notify the Property Manager of any change in asset status for property assigned to him/her (i.e., sale, transfer, loan, disposal, etc.).

2.3.2 When initiating purchases of property for their use, employees should coordinate with the Property Manager to ensure such assets are properly assigned and accounted for.

2.3.3 When employees determine property they are using is no longer needed it should be disposed of under supervision of the Property Manager in accordance with Countywide Policy 1100 on Surplus Property.

2.3.4 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."

The controlled assets inventory lists were not current; therefore, during the course of our fieldwork, staff made additions and changes to the lists prior to submitting them to the Auditor's Office. The employees who were delegated the responsibilities for maintaining the lists had not been notified when new assets had been purchased or when changes in asset status occurred; therefore, they were unable to keep the controlled assets inventory lists current.

Mayor Operations encompasses the four departments under the Mayor's Office portfolio. Staff cited that due to the new Mayor beginning his term in January 2013, there were many employees who transferred to other County agencies or terminated employment with the County, and new employees were appointed to the vacant positions. Therefore, there was a lot of movement of controlled assets during the first quarter of 2013; either to new County agencies or to Surplus Property. In addition, assets were purchased for new employees and the staff responsible for maintaining the controlled assets inventory lists were not notified of the purchases.

Controlled assets are sensitive to conversion to personal use if they are not properly safeguarded and closely tracked by management. Assets cannot be properly safeguarded if items have not been recorded on the controlled assets inventory lists

Recommendation

We recommend that the controlled assets inventory lists be updated on a continuous basis to accurately reflect the assets in Mayor Operations.

We recommend the employees in Mayor Operations receive instruction in the procedures for safeguarding assets, and that the Property Manager ensures that assets are properly assigned and accounted for.

Finding # 3 - The lists for the "Controlled Assets Inventory Form - Organization" were not signed and dated.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.11 states:

"At least annually, conduct physical inventory of fixed and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."

Due to the volume of controlled assets, there were three separate lists maintained for the controlled assets at Mayor Operations. Each list was maintained by a different employee. The controlled asset database contained ten items that were shared assets. However, the "Controlled Assets Inventory List - Organization" (for assets which were shared by more than one employee) was not signed or dated. Therefore, we could not verify when a physical inventory of controlled assets was conducted.

Internal controls are insufficient for safeguarding the controlled assets for which Mayor Operations has custodial responsibility. When assets are not closely monitored, they are subject to being lost or stolen without detection.

Recommendation

We recommend the Property Manager conduct a physical inventory of controlled assets at least annually, and that the "Controlled Assets Inventory List - Organization" be signed and dated when the physical inventory has been conducted.

Finding # 4 - The software inventory was not complete.

Risk Level: Low

Countywide Policy #1400-3, "Software Licensing Policy," Section 3.5 states:

"County agency management shall maintain a current software inventory which includes at least the following: number of authorized and actual installations, license agreement, and proof of purchase. County agency management shall conduct an annual review of their software inventory. Software inventories shall be updated whenever new software is acquired and/or installed or software is uninstalled, or the IT resource and/or system is transferred, decommissioned, or sent to surplus."

During our review of computer controls, we found that the software inventory maintained by Mayor Operations was incomplete. The number of authorized installations was not included on the list.

Staff stated that they were of the assumption that IS tracks the software that is installed on the agency's computers. However, County agency management is responsible for verifying ownership of software licenses for all products installed on their systems.

Without a complete software inventory, it is impossible to determine if all software installed on County IT resources or systems is properly licensed. The use of unlicensed software may result in fines to the County.

Recommendation

We recommend that management ensure that a complete software inventory is maintained for all software used at Mayor Operations.

Finding # 5 - Meal Reimbursement Forms were either not included or not signed for some transactions.

Risk Level: Low

Countywide Policy #1020, "County Meals," Section 6.1 states:

"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."

During our review of purchasing card transactions, we noted 12 out of 283 transactions made from May 1, 2012 to April 30, 2013 that had Meal Reimbursement Forms not signed and dated by the Department Director. We also noted two food purchases that did not have a Meal Reimbursement Form included with the sales receipts.

Without a Meal Reimbursement Form that is signed and dated by the Elected Official or Division/Department Director, we cannot verify that the purchases were authorized and approved.

Recommendation

We recommend that a Meal Reimbursement Form that is signed and dated by the Elected Official or Division/Department Director accompany each food purchase made using the purchasing card.

Finding # 6 - Sales tax was paid on some purchases.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 4.1.1 states:

"Sales Tax on P-Card Purchases. County purchases are exempt from sales tax. Therefore, if sales tax is mistakenly paid and the tax to recover is worth the cost of the recovery effort, the Cardholder shall take actions to obtain a credit to the P-Card account for the tax paid. Otherwise, the Cardholder may be held responsible, at the discretion of their County Agency Management, for reimbursing the County for the amount of the sales tax."

During our review of purchasing card transactions, we found that sales tax, totalling \$88.80, had been paid on 8 out of 283 purchases made between May 1, 2012 and April 30, 2013.

When employees do not provide a Utah State Tax Commission Form "Exemption Certificate" to a vendor when making purchases, the County unnecessarily pays sales tax on those purchases.

Recommendation

We recommend that purchasing cardholders obtain "Exemption Certificates" to provide to vendors when making purchases to ensure that sales tax is not paid.

Additional Information

Background

Mayor Operations provides leadership and direction to the organizations within the Mayor's purview. The Department Administration area represents and promotes the interests of Salt Lake County to the public, media, and other governmental jurisdictions. This area consists of four departments: Administrative Services, Community Services, Human Services, and Public Works. Emergency Services, Volunteer Services, and the Criminal Justice Advisory Council are also included in Mayor Operations.

The purpose statement for Mayor Operations is "to provide leadership that promotes a government that acts in the best interest of Salt Lake County citizens and improves the quality of life for those citizens. To deliver an open, efficient, ethical, and fiscally accountable government. To be dedicated strategic partners to all County organizations."

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 April 30, 2013. 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.

Management response to findings in this report, when received, will be attached as Appendix A.



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Salt Lake County
Chief Financial Officer

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Salt Lake City, UT 84190-1020

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August 30, 2013

GREGORY P. HAWKINS
Salt Lake County Auditor

Re: *An Audit of the Key Controls of Mayor Operations*

Dear Gregory P. Hawkins:

We want to thank you for your report dated August 07, 2013 and the work performed by your staff, specifically Cherylann Johnson.

We are pleased that your audit findings are moderate to low risk. However, we take all risk levels seriously and will increase our efforts to address your findings as quickly as possible. Resources permitting, we hope to have fully implemented recommended safeguards by February 28, 2014.

I want to further thank Cherylann Johnson on behalf of Mayor Operations staff who appreciated her approach to our agency's audit and her willingness to meet with us and further explain her findings in a manner that could easily be interpreted by agency staff. This has facilitated solutions to her findings, with some additional training and communication we are confident that our internal controls will strengthen.

Below you will find our management responses to your six (6) findings.

Finding # 1 - A "Controlled Assets Inventory Form - Employee" was not available for some employees.

The property manager will have each employee sign annually for the controlled assets assigned to them and maintain copies at each individual's workstation.

We currently maintain a division workbook that tracks this detail for us but we have not consistently obtained signatures from staff on an annual basis for their assigned control asset list.

Finding # 2 - The controlled assets inventory lists were not properly updated.

We are identifying a new property manager. This person will be in a higher position of authority than the current property manager. Once we have a property manager designated they or their designee(s) will be responsible for updating and maintaining a current log of all controlled assets. We are looking into the possibility of having two staff members be the single point of receiving controlled assets, logging them, and distributing them if they are to be on an individual controlled asset list. This single point of

receiving the items should lend itself to a more accurate log. These staff members would work in collaboration with our property manager to make sure all controlled assets are properly tracked, assigned, and accounted for.

Finding # 3 - The lists for the "Controlled Assets Inventory Form - Organization" were not signed and dated.

Our property manager will be responsible for conducting a physical inventory at least once a year and will make sure proper documentation and signatures are completed.

Finding # 4 - The software inventory was not complete.

A designee will be assigned to conduct our software inventory and make sure we have the proper permissions and licenses to use the software.

Finding # 5 - Meal Reimbursement Forms were either not included or not signed for some transactions.

The Fiscal Manager will be communicating to all Mayor Operation staff that meal reimbursement forms are required for any food/meal purchases and will include the form in our communication to staff. We will also emphasize the importance of proper approvals and signatures that must be present on the meal reimbursement forms.

Finding # 6 - Sales tax was paid on some purchases.

The Fiscal Manager will educate staff further on being more diligent when making purchases and making sure they are not charged sales tax at the point of purchase. In some cases it is not worth the resources and staff time used to get a sales tax charge removed. In these cases we will make the necessary notations indicating manager approval to not proceed in recovering the sales tax charged.

Sincerely,

A handwritten signature in black ink, appearing to read 'Darin Casper', written over a horizontal line.

**Darin Casper
Chief Financial Officer**