

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



An Audit of
Health Administration

December 31, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 31, 2014

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of Health Administration

Dear Mayor McAdams:

We recently completed an analysis of Health Administration pursuant to 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. 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 Health Administration and the cooperation from Dorothy Adams, Matthew Ferguson, Rosalie Grip, Kayla Doud, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Health Administration 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 Todd Livingston
Deputy Auditor

cc: Gary Edwards, Director of Health
Dorothy Adams, Associate Division Director
Matt Ferguson, Fiscal Manager



Objectives

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

Health Administration management has put into place several key controls for managing public funds. Most risks identified were minor and not expected to result in material loss. Deficiencies in internal controls over deposits and controlled assets have a higher likelihood of being a liability to the County. A report of the last audit of the Health Administration was released to the public in August 2013.

Findings and Recommendations

Finding # 1 - The deposited composition of cash, credit cards, and checks did not match the system collection records.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Sections 3.8.1, 3.8.1.2 and 7.3.1.1 state:

"All County Agencies should balance collections to cash register (or receipt log) totals and prepare a deposit, using MPF Form 3A, Cash Balance Sheet, or a similar form developed for and produced by the specific Agency."

"With any balancing procedure, the cash count total, including the breakdown by cash and check composition, should match the deposit slip total."

"The employee preparing a deposit will balance the total payment card receipts to the 'daily report of electronically transmitted activity' (Daily Report) produced by a stand-alone payment card terminal, and will compare the totals to the cash register tender-total for payment card activity."

Of the 25 bank deposits reviewed, 24 did not balance with the composition of cash, credit cards, and checks shown in the system collection record.

When the composition of cash, credit cards, and checks shown in the system collection records do not reconcile with deposit documentation, there is an increased risk of not discovering cashier theft and/or errors.

Recommendation

We recommend that the composition of cash, credit cards, and checks shown in the system collection records be reconciled with deposit documentation.

Finding # 2 - An employee working as cashier also had access to and maintained accounting records.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," states in the introduction:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment."

An employee that performed cashiering duties also verified the same funds the next day.

When a cashier has access to and maintains accounting records related to those funds, funds are at a greater risk of being stolen, or diverted for personal use.

Recommendation

We recommend that the duties of cashiering and verifying deposit funds be segregated.

Finding # 3 - Deposits were not always made in a timely manner.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by §51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable, but not later than three days after receipt."

A previous audit conducted in 2013 found that 20 out of 30 deposits were made more than three days after receipt. A retest found that 16 out of 25 deposits examined were still deposited more than three days after receipt of collections.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that would otherwise be accrued.

Recommendation

We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

Finding # 4 - Checks were not restrictively endorsed immediately 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."

A previous audit conducted in 2013 found that checks were not endorsed immediately upon receipt. A retest showed that checks, in like manner, were not being endorsed with the agency's restrictive endorsement stamp immediately upon receipt. Checks not endorsed upon receipt were primarily checks received by mail. Checks receipted in person were endorsed immediately upon receipt.

Checks that are not restrictively endorsed upon receipt are at a greater risk of misappropriation.

Recommendation

We recommend that checks are restrictively endorsed immediately upon receipt.

Finding # 5 - Cash over/short logs were not signed by a supervisor.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 5.3.1.3 states:

"The MPF Form 11 [Cash Over/Short Log], for each Cashier, shall be signed by the Cashier's immediate supervisor."

We found that 12 out of 12 over/short logs examined were not signed by the cashier's immediate supervisor.

When over/short logs are not signed by a supervisor as evidence of review, overages and shortages may go unnoticed and needed remediation may not occur.

Recommendation

We recommend that an over/short log be maintained for each cashier and that their supervisor review and sign the log each month.

Finding # 6 - On-line cash drawers were not used.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 2.4.1.3 and 2.4.1.3.1 state:

"If total receipts per day exceeds \$1,000, or the number of transactions processed is 100 or more, then Agency Management shall provide an on-line register with the following features: A cash drawer for each terminal that automatically opens when a sale or transaction is completed."

An average of \$14,879.43 was receipted per day in a sample of 25 days of deposits from August 2013 to June 2014. The receipting station at Health Administration used a manual lockable cashdrawer instead of on-line cash drawers that open automatically when sales or transactions are completed.

When an on-line cash drawer is not used when required, there is an increased risk of inaccurate receipting, recording, accounting, and improper safekeeping of public money.

Recommendation

We recommend that Health Department management provide an on-line cash drawer for each terminal that automatically opens when a sale or transaction is completed.

Finding # 7 - A comprehensive controlled assets inventory had not been conducted within one year.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," 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."

There was no signed and dated documentation on file to show that an annual physical inventory of controlled assets had been performed since June 2013.

When accountability for assets is not fully established by conducting an annual inventory, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that a comprehensive controlled asset inventory be conducted at least annually.

Additional Information

Background

The Health Department Administration Offices are located at 2001 S. State Street, Salt Lake City, Utah. Health Administration assists all other Divisions with administrative services for facilities, finance, information services, and personnel, including payroll. The reported Health Administration budget for 2014 was \$6,276,570.

Scope

Our work included a formal examination of financial records related to the following internal controls, to the degree applicable:

- Change Fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices
- Accounts Receivable
- Accounts Payable
- Third Party Contracts

Our examination period covered up to twelve months ending August 29, 2014. In addition to reviewing financial records, we reviewed and examined current practices through observation 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.

Memorandum

To: Todd Livingston, Salt Lake County Auditor's Office

CC: Gary Edwards, Rosalie Grip, Beverly Cowling, Lori Burk

From: Matt Ferguson, Fiscal Manager

Thru: Dorothy Adams, Associate Director

Date: 02/17/2015

Re: Audit of the Salt Lake County Health Administration.

Thank you for providing the findings of the Health Administration audit. Here is a short response to each finding:

The first finding was, "**On-line cash drawers were not used.**" As mentioned in the response to other recent audits, the cost to comply with the letter of this policy is greater than the resulting risk reduction. In addition, the Health Department would like to avoid the perception of being a retail operation. Therefore, we have compensating measures in place to safeguard cash and maintain adequate accountability. Incidentally, the assigned level of risk for this finding is inconsistent with previous risk assessments coming from the Auditor's Office (it should be "low," not "moderate").

The second finding was, "**The deposited composition of cash, credit cards, and checks did not match the system collection records.**" Unfortunately, due to the confinements of our system, the categories don't always match up exactly. However, the total amounts match and are reconciled every day. This year, we are implementing a new version of the Point of Sale software, which will eliminate this problem. The go-live date for this change is April 1, 2015.

The third finding was, "**An employee working as cashier also had access to and maintained accounting records.**" We respectfully challenge this finding because we *are* compliant with policy 1062. The fact that our cashier may verify reports and transactions related to the same funds for which she had previously acted as cashier does not mean that she has the ability to manipulate the accounting records. Furthermore, we strictly adhere to the principle of dual control when preparing daily deposits. Another staff person always verifies the money at the end of each day.

The fourth finding was, "**Deposits were not always made in a timely manner.**" As with finding number three, we are likewise in conformance with County policy, in that our deposits *are* made on a daily basis, "whenever practicable," or on the following day. Hence, we'd like to offer a "counter" recommendation that the Auditors perform their tests based on the dates when deposits are *transferred to the security officers (or Brinks)* rather than the dates on which they are actually posted to the bank. Otherwise, the audits done in this area will continue to be

irrelevant, because the timing of bank postings is entirely beyond our control. We've made this recommendation on multiple occasions.

The fifth finding was, "**Checks were not restrictively endorsed upon receipt.**" From now on, we will begin to restrictively endorse all checks upon receipt, even though there are compensating measures in place to secure the checks. For checks that are later determined to have been sent in error, the stamp will be crossed out and the check returned.

The sixth finding was, "**Over/short logs were not signed by the cashier's immediate supervisor.**" We will educate our staff that the over/short logs need to be signed by the cashier's immediate supervisor, as outlined in the policy. However, there may be extenuating circumstances or occasions when the right person is not available to sign the log. In such situations, the log will be signed by the supervisor at a later date or an explanation will be included with the documentation.

The seventh finding was, "**A comprehensive controlled asset inventory had not been conducted within one year.**" We concur with the recommendation to perform a controlled asset inventory annually. The next audit of Health Administration assets is scheduled for May 2015. Rosalie Grip is the Asset Manager in our office who will be responsible to conduct the inventory at that time.

In conclusion, thank you for your work. We appreciate learning how and in what areas we can improve our internal controls.