

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



An Audit of the Key Controls of  
Youth Services Administration

March 24, 2014

**GREGORY P. HAWKINS**

SALT LAKE COUNTY AUDITOR

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January 29, 2014

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 Youth Services Administration

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Youth Services Administration 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 Youth Services Administration and the cooperation from Elizabeth Bayler, Administrative and Fiscal Manager, Ann Stoddard, Accountant, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Youth Services 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 Leonardo Flores  
Deputy Auditor

cc: Pat Berckman, Division Director  
Elizabeth Bayler, Administrative and Fiscal Manager

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## Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Youth Services 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

Youth Services Administration 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 for cash receipting, cash depositing, controlled assets, purchasing cards, and petty cash have a higher likelihood of being a liability to the County. Reports of recent audits of Youth Services Administration were released to the public in August 2008 and October 2013.

## Findings and Recommendations

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### *Finding # 1 - Deposits did not always balance.*

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#### **Risk Level: Moderate**

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.2 states:

"A 'master' balance sheet may be prepared to accumulate totals of individual cash balance sheets from each cash register. With any balancing procedure, the cash count total, including the breakdown by cash and check composition, should match the deposit slip total."

Of the 25 bank deposits reviewed, 7 did not balance with the daily collections reported. We found that 38 checks were deposited without supporting receipt documentation. In 5 of the 7 deposits, cash receipts did not balance with deposit documentation.

When daily collection records and receipts do not reconcile with deposit documentation, cashier theft and/or errors cannot easily be discovered.

#### ***Recommendation***

We recommend that receipts, documenting the daily collections, balance with the daily bank deposit.

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***Finding # 2 - Checks were not restrictively endorsed upon receipt.***

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**Risk Level: Moderate**

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."

Checks were not being endorsed with the agency's restrictive endorsement stamp upon receipt. Two checks, not endorsed with the agency's stamp, were found in the accountant's possession.

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.

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***Finding # 3 - Internal controls over checks received through the mail were not adequate.***

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**Risk Level: Moderate**

Countywide Policy #1062, "Management of Public Funds," Section 3.1.5 states:

"Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

Checks received by mail were not recorded in a log in the presence of two staff members.

When checks received by mail are not properly safeguarded and documented, they are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that checks received in the mail be recorded on a log in the presence of two staff members.

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***Finding # 4 - The master balance sheet did not include a calculation of overages and shortages, and no over/short log was used.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.4 states:

"An 'over/short' or 'no-difference' amount between the cash count (cash and checks only, not payment card amounts), and recorded receipt totals shall be generated by the software application, or manually entered on the designated line of the MPF Form 3A."

Section 3.8.2 states:

"Any daily shortages or overages [should be] recognized and recorded on MPF Form 3A, Cash Balance Sheet, and on MPF Form 11, Cash Over/Short Log."

The master balance sheet prepared by the accountant included amounts collected from all sources, and indicated if payment was made by cash or check. Each master balance sheet was reviewed and signed off on by the fiscal manager. However, there was no documentation of any resulting overage or shortage on the master balance sheet form in use. In addition, no log of overages and shortages was maintained.

Failure to calculate and document "over/short" or "no-difference" amounts between the cash count and recorded receipt totals creates a greater risk of County funds being lost or stolen without detection.

***Recommendation***

We recommend that Youth Services modify the master balance sheet currently in use to calculate any overages or shortages.

We recommend that cashiers enter their daily overages or shortages onto a monthly MPF Form 11, "Cash Over/Short Log."

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***Finding # 5 - The fund transfer receipt did not completely document the transfer of funds.***

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**Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.1 states:

"An MPF Form 7A, Fund Transfer Receipt, or similar form shall be completed to document the transfer of funds to the employee performing the balancing procedure."

Of the 127 fund transfer receipts we examined, 20 were missing either a signature, date, or both of the employee performing the balancing procedure.

When the fund transfer form is not completed properly, accountability is not fully established and funds are at a greater risk of being lost, stolen, or diverted for personal use.

***Recommendation***

We recommend that the individual performing the balancing procedure verify the funds transferred by signing and dating the MPF Form 7A, or similar form, submitted by the cashier.

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***Finding # 6 - The "Controlled Assets Inventory Form - Organization" was not signed or dated.***

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**Risk Level: Low**

Countywide Policy #1125, "Safeguarding Property/Assets," Section 4.3.3 states:

"The 'Certification' on Exhibit 4 [Controlled Assets Inventory Form-Organization] states that the Property Manager (for assets not assigned to individual employees) [is] accountable for all property assigned to them."

The "Controlled Assets Inventory Form-Organization" was not signed by the property manager as evidence of accountability for assets not assigned to individual employees.

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

***Recommendation***

We recommend that the property manager sign and date the "Controlled Assets Inventory Form-Organization" to certify accountability of the assets not assigned to individuals.

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***Finding # 7 - Deposits were not always made in a timely manner.***

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**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 no later than three days after receipt."

We reviewed 25 deposits and found that all 25 were 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.

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***Finding # 8 - The authorized petty cash fund balance was excessive.***

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**Risk Level: Low**

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.1.4 states:

"The requested imprest amount should be sufficient to provide adequate operating funds for 2 months."

A previous audit conducted in 2013 found that petty cash funds on hand for 2012 were sufficient for over 6 months of expenditures. A retest of this petty cash fund for 2013 expenditures showed that the account was reimbursed twice for a total of \$211.45, representing average monthly expenditures of \$17.85. Funds on hand were sufficient for 28 months of expenditures.

Excess petty cash funds are at greater risk for misappropriation. In addition, interest is lost on amounts that could be deposited.

***Recommendation***

We recommend that Youth Services Administration review and reduce the amount of the petty cash fund balance.

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***Finding # 9 - Purchasing cards were not signed by cardholders.***

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**Risk Level: Low**

Countywide Policy #7035, "Purchasing Cards," Section 2.1 states:

"Immediately, upon receipt of the P-Card, it shall be signed by the Cardholder."

Of the five purchasing cards reviewed, two were not signed on the back by the cardholders.

When a purchasing card is not signed, the cardholder cannot easily be verified by a vendor when making transactions.

***Recommendation***

We recommend that the cardholders sign their purchasing cards.

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***Finding # 10 - Youth Services Administration did not maintain a file of required quotes or justifications for a multiple award state contract.***

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**Risk Level: Low**

Countywide Policy #7020, "State Contracts and Cooperative Agreements," Section 1.4.1 and 1.4.3 state:

"County agencies shall fulfill the requirements of any state contract or cooperative agreement purchase, including but not limited to obtaining quotes from other multiple award state contract vendors to obtain the best value for the county. ... County agencies shall maintain a file of any required quotes or award justifications for orders made by the agency."

Youth Services Administration uses the multiple award state contract with Office Max. A file of any required quotes or award justifications for Office Max was not maintained.

When required quotes or award justifications for multiple award state contracts are not maintained, the best overall pricing, delivery, service, availability, and product compatibility cannot be verified.

***Recommendation***

We recommend that Youth Services Administration maintain a file of any required quotes or award justifications for all multiple award state contracts used.

## **Additional Information**

### **Background**

Youth Services provides shelter care for youth from birth to age 18, counseling, substance abuse and mental health services, afterschool programming, job training skills, around the clock availability and crisis therapy, and more, to children and youth in need throughout Salt Lake County. Youth Services' goal is to improve the lives of youth and their families. They continue to serve as a place of safety, shelter, and support. Youth Services Administration provides administrative support, accounting functions, and oversight for the various services and programs.

### **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, 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.





March 18, 2014

Roger K Larsen  
Audit Division Director  
Salt Lake County Auditor  
2001 South State Street N3300  
Salt Lake City, Utah 84114-4575

RE: Audit of Salt Lake County Youth Services Administration

Dear Roger:

Following is the Division of Youth Services response to the Key Control Audit conducted by your office and the findings noted in the report dated January 29, 2014.

*Finding #1- Deposits did not always balance.*

Since the time that the Key Control Audit was conducted, a new process has been implemented as follows:

- Each person who may be in a circumstance to receive money has been assigned a three-part cash receipt book with consecutively numbered receipts.
- When the money is received from the client an original, numbered receipt is issued.
- The accountant will sign the receipt book and retain part two of the receipt when receiving the funds.
- Part two of the receipts will be reconciled with the cash/check amounts being deposited.
- Part three of the receipt is retained in the book by the person who originally received the funds for future reference

*Finding #2- Checks were not restrictively endorsed upon receipt.*

The two checks noted in the audit finding were just a human oversight and not an illustration of regular practices. All checks are restrictively endorsed when received.

*Finding #3- Internal controls over checks received through the mail were not adequate.*

A log for recording checks received through the mail has been created and all future mail items that appear to have checks enclosed will be opened by two staff members.

*Finding #4- The master balance sheet did not include a calculation of overages and shortages, and no over/short log was used.*

It is my understanding that the terms "over" and "short" are in reference back to Finding #1 and there not being receipts for all money being deposited. So if

there was no receipt but there was money we would be considered “over” and if there was a receipt and no money we would be considered “short”. In the future we will utilize an over/short log in cases when this occurs.

*Finding #5- The fund transfer receipt did not completely document the transfer of funds.*

After the Key Control Audit performed in the late spring/early summer of 2013 a new process was implemented to complete the transfer of funds properly as follows:

- Each person who may be in a circumstance to receive money has been assigned a three-part cash receipt book with consecutively numbered receipts.
- When the money is received from the client an original, numbered receipt is issued.
- The accountant will sign the receipt book and retain part two of the receipt when receiving the funds.
- Part three of the receipt is retained in the book by the person who originally received the funds for future reference

*Finding #6- The “Controlled Assets Inventory Form – Organization” was not signed or dated.*

Each employee is required to sign a list of assets assigned to them. The property manager then signs each of those forms. We were not aware that an additional full listing of the controlled assets needed to also be signed by the property manager. We will implement this process in the future.

*Finding #7- Deposits were not always made in a timely manner.*

Deposits have been historically made when a sufficient amount to justify the trip from the Youth Services main campus to the Government Center building was obtained. We will make every effort going forward to make deposits within 3 days of receiving funds.

*Finding #8- The authorized petty cash fund balance was excessive.*

While the use of the County purchasing system or purchasing cards are preferred and encouraged, the petty cash fund is available for emergency purposes. Petty cash is tightly controlled. There is no way to predict the nature of an emergency. In Youth Services’ history, emergencies can vary from needing to provide medication to food for a restricted diet to basic clothing. The petty cash fund assigned to the Administration programs is for emergency or normal petty cash purposes and is, in reality, utilized by all programs if the petty cash custodian assigned to any one program is out or unavailable. In addition, the petty cash fund itself is strictly safeguarded. At this time, a

reduction in the amount of the fund would be imprudent given the possible dramatic fluctuations in need.

*Finding #9- Purchasing cards were not signed by cardholders.*

The two purchasing cards noted in the audit that had not been signed have now been signed and the fiscal manager will verify all cards are signed when received going forward.

*Finding #10- Youth Services Administration did not maintain a file of required quotes or justifications for a multiple award state contract.*

The contract noted in this audit finding is an office supply contract of which there are 4 state contracts for office supplies. The County policy #7020 states "County agencies shall maintain a file of any required quotes or award justifications for orders made by the agency". The requirement in this policy is referring to whatever "requirement" the state contract may have. The state contract states "Please note this is a multiple award contract. Please see the following contracts for similar items before making a purchasing decision". There is no mention of a requirement for either quotes or documented justification on this particular set of multiple award state contracts for office supplies. Therefore, we did not have anything on file with quotes or an award justification. We will however going forward indicate on all payments made our justification for the choice of this particular vendor to satisfy the auditors' recommendations.

Thank you for your assistance and support. Please feel free to contact us with any questions or concerns.

Sincerely,



Pat Berckman  
Division Director

Cc: Elizabeth Bayler, Fiscal Manager  
Roger Gisseman, Youth Services Associate Director