

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



An Audit of the Key Controls of
Planning and Development Services

October 03, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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October 03, 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 Planning and Development Services

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LL.M.
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Dear Mayor McAdams:

We recently completed an analysis of the financial records of Planning and Development Services 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 Planning and Development Services and the cooperation from Kathy Hart, Office Coordinator, Chara Ellis, Bonding Coordinator, Glenn Hammer, Business Process Analyst, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Planning and Development Services 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 Anita C. Kasal
Deputy Auditor

cc: Rolen Yoshinaga, Division Director
Randy Allen, Fiscal Manager



Objectives

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

Planning and Development Services has put into place several key internal controls for managing public funds and safeguarding public assets. Most risks identified were minor and would not be expected to result in the material loss of County property. The report of the last audit covered the 2012 accounting records and was released to the public in March 2013. Our scope included a retest of six prior audit findings. Deficiencies in an outdated and unsupported version of a cash operating system, settlement report reconciliations, and the segregation of duties surrounding credit card refunds have a higher likelihood of leading to loss of County property.

Findings and Recommendations

Finding # 1 - Segregation of duties over credit card refunds and reconciliations was not adequate and no compensating controls were in place.

Risk Level: High

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

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashing 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."

The reconciliations of the daily credit card receipts to the daily stand-alone terminal report and the daily stand-alone terminal reports to the monthly settlement report were performed by an employee who also had rights to refund credit card payments on the stand-alone terminal. There was no indication that the employee's reconciliations or refunds were reviewed by a supervisor. This employee was also the backup for the agency cashier duties.

When one employee performs credit card reconciliations and refunds credit card payments, funds are at a greater risk of being lost, stolen, or diverted for personal use without detection.

Recommendation

We recommend that the duties of performing credit card refunds and reconciliations be segregated or that compensating controls be put in place.

Finding # 2 - Outdated point-of-sale software was still being used.

Risk Level: High

Standard business practice requires that software used to support transactions and maintain records operate with a current version that will be adequately supported by vendor's technicians.

In a previous audit conducted in 2012, we found that the software used for cashiering and other office processes, Hansen 7.7, was an outdated version that was no longer supported by the vendor. The division was working towards implementing a new software system; however, as of August 1, 2014, the outdated Hansen 7.7 version was still used as the point-of-sale software.

When outdated and unsupported software is used to manage the licensing of businesses operating within the County, records are a greater risk of being lost or stolen.

Recommendation

We recommend that the outdated and unsupported point-of-sale software be replaced.

Finding # 3 - Refunds were not always handled in accordance with agency or Countywide policy.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 6.1.1 states:

"... The void slip, or other documentation used in the refund transaction, shall be signed by the Cashier and an Agency Supervisor, the reason for the refund recorded on the void documentation, and retained on file at the County Agency."

In addition, the Salt Lake County Planning and Development Services, "Standard Operating Procedures Overview for Cashiers," Section J.i states:

"In the event a refund is requested the Salt Lake County Refund, Reapplied, Returned Fees form (see Exhibit 9) must be completed at the Front Counter and approved by a Supervisor."

Refunds were not always properly documented, signed, or approved. The refund form was not used for 3 of the 17 refunds issued. In addition, 12 refund forms were missing one or more signatures as required by Planning and Development standard operating procedures.

When refund forms are not used or properly signed, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that refund forms be used and that they are signed and dated by the cashier, the supervisor as evidence of review, and the person issuing the refund.

Finding # 4 - The cash balance sheet was not always signed by the cashier.

Risk Level: Moderate

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

"If prepared manually on MPF Form 3A, or similar form, the cash balance sheet should be signed by the cashier for each cash register or location where cash is accepted."

We found that 2 out of 121 cash balance sheets reviewed were missing. Of the remaining 119 cash balance sheets there was one incorrectly totaled, and all of them lacked the cashier's signature. In a previous audit conducted in 2012, we found that 17 out of 121 balance sheets lacked the cashier signature, and approximately the same number lacked the supervisor's signature.

When the cash balance sheet is not signed by the cashier, accountability for funds entrusted to them is not ensured.

Recommendation

We recommend that cashiers sign the cash balance sheet.

Finding # 5 - A fund transfer log was not used to document the movement of the seven change funds to and from the safe.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 2.7.3 states:

"Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox.

There was no log documenting the movement of the seven change funds to and from the safe.

When movement of the change funds is not documented, accountability for funds is not established, leaving them at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that an MPF Form 7, "Fund Transfer Ledger," or similar log, be used to document the movement of the change funds to and from the safe.

Finding # 6 - Payment card receipts were not balanced to the daily terminal report by the employee preparing the deposit.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 7.3.1.1 states,

"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. All totals should match up."

In a previous audit conducted in 2012, we found that there was no documentation showing that the total from the stand alone terminal was reconciled with the total cash register receipts. In a retest we observed that the deposit preparer was still not matching daily credit card transactions to the terminals stand-alone summary report or to the point-of-sale reports. We also found that credit card transactions were still being entered twice, once when the card was swiped through the stand-alone terminal, and the second time when entered into the point-of-sale system.

While observing the deposit preparer make a deposit, she stated that she was not allowed to reconcile the credit cards.

When the matching of the daily credit card transactions with the terminals stand-alone summary report is not performed by the deposit preparer, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the employee preparing the deposit match credit card receipts with the terminals stand-alone summary report and with the point-of-sale reports.

Finding # 7 - The safe was found unlocked.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 5.1.1.3 states:

"Secure all cashboxes in a combination safe, locked filing cabinet or drawer, or transfer them to the Treasurer's Office for overnight storage."

We found the door to the safe unlocked during business hours. All employees have access to the room where the safe is located. The safe contains the cashier's change funds and deposit funds.

When deposit funds and cashiers' change funds are left unsecure in an unlocked safe, funds are at a greater risk of being lost, stolen, or diverted for personal use without detection.

Recommendation

We recommend that the agency ensure the safe is locked whenever funds are contained inside.

Finding # 8 - Cashiers did not maintain a daily over/short log.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Sections 3.8.2 and 5.3.1.3 state:

"Change funds should be counted, restored to the established imprest balance, and any daily shortages or overages recognized and recorded on MPF Form 3A, Cash Balance Sheet, and on MPF Form 11, Cash Over/Short Log. ...The MPF Form 11, for each Cashier, shall be signed by the Cashier's immediate supervisor."

In a current review of 30 days of deposits there was one overage for \$30 and three shortages for \$180, \$125, and \$100 shown on the daily Fee Detail Reports. There was no MPF Form 11, or similar form, found that traced these amounts to a specific cashier and there was no indication they were reviewed by a supervisor. In a previous audit conducted in 2012, we found that cashiers recorded overages, shortages, or no balancing differences on their balance sheets but not on monthly logs.

When cashier overages and shortages are not recorded on an over/short log and signed by a supervisor as evidence of review, balancing trends may go unnoticed by management, and needed remediation may not occur.

Recommendation

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

Finding # 9 - The deposit documentation lacked a supervisory signature as evidence of review.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 4.2.2 states:

"The 'master' balance sheet shall be reviewed and reconciled to the bank deposit slip, and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit."

In a previous audit conducted in 2012, we found that the deposit documentation lacked a supervisory signature as evidence of review. In a random sample of 30 deposits, we found that neither the "Agent Cashier Consolidated Worksheet" nor the point-of-sale report titled "Development Services Consolidated Daily Transaction Listing" (master balance sheet) were consistently signed by a supervisor as evidence of review. Reports were only signed when an unbalanced report was investigated and the cause was documented.

When all deposit records are not consistently reviewed and signed by a supervisor as evidence of review, there is an increased risk of error, misstatement, and misappropriation of funds.

Recommendation

We recommend that a supervisor, or an employee designated by management, review and sign the master balance sheet as verification of funds deposited.

Finding # 10 - Credit card receipts were not always signed by patrons.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 7.2.2 states:

"The signed merchant copy of the receipt shall be placed immediately in the cash drawer and not left exposed on the counter or other work area for other employees or patrons to view. All payment-card merchant copies should be safeguarded in locked containers at all times."

Thirteen out of 327 credit card receipts were not signed by the patron and showed no indication they were received by phone or mail.

When credit card receipts are not signed by the patron, or payment by phone or mail is not indicated, there is an increased risk that transactions can be falsified in order to conceal the misappropriation of funds.

Recommendation

We recommend that credit card receipts be signed by the patron, or that the merchant copy indicate the payment was made by phone or received by mail.

Finding # 11 - Voids were not always handled in accordance with Countywide policy.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.72 and 3.73 state:

"All copies will be marked 'VOID' including the customer copy, if available. The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution. ... A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void. All voided receipts will be attached to the daily cash balance sheet for audit purposes.."

We found 3 voids in a random sample of 30 deposits. None of the receipt copies were marked through as "VOID," the cause and resolution was not always documented, and one or both signatures of the cashier or a supervisor were missing. In a previous audit conducted in 2012, we found one void that did not have proper documentation and signatures.

When voided transactions are not processed according to Countywide policy, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that VOID be written on the front of voided receipts, cashiers document and sign the voided receipts, and supervisors sign voided receipts as evidence of review.

Additional Information

Background

The Planning and Development Services Division is located at 2001 South State Street Suite N3600, in Salt Lake City. They issue building permits and business licenses, and provide land use planning, code enforcement, and building inspections in unincorporated areas of the Salt Lake County. Fees assessed for these services can be paid in person, by phone, or through the mail. In 2013, they collected more than \$2.5 million fees, for these services.

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
- Accounts Receivable
- Accounts Payable
- Third Party Contracts

Our examination period covered up to twelve months ending May 31, 2014. 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. Retesting of prior audit findings was also performed, where applicable.

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

Ben McAdams
Salt Lake County Mayor

Patrick Leary
Township Executive

**PLANNING &
DEVELOPMENT
SERVICES**

Rolen Yoshinaga
Planning & Development
Division Director

**Management Response to
Audit report dated September 17, 2014;**

Introduction

The Department is in the midst of replacing outdated Hansen cashiering and operational software with a best practice iNovah cashiering software option – the same software used by the Salt Lake County Treasurer. Operational software is being replaced with new best practice software as well. Accordingly, we are reviewing and modifying all related internal controls and Standard Operating Procedures (SOP's) to align with the new software. We are also reorganizing the Department to incorporate the new Office of Township Services concept into the Planning and Development Services Department.

Finding #1 Segregation of duties over credit card refunds and reconciliations was not adequate and no compensating controls were in place.

Management Response

For the most part we agree with this recommendation and will review the current related SOP's and internal controls to implement another option, with our limited number of employees, to better segregate the credit card refunds from the reconciliation process. Specifically, we recently reorganized to provide two Supervisors over cashiers and gave those Supervisors primary responsibility and security rights to review and authorize cashier transactions including credit card refunds. Cashiers will prepare respective deposits. Additionally, with the new iNovah collection software, the two new Supervisors will review daily balancing processes, assist cashiers in resolving any discrepancies, and review deposits.

Therefore, new software will now allow us to completely remove security from the employee performing reconciliations so she is no longer even a secondary or a back-up for credit card refund transactions. As such we will immediately terminate all her credit card refund rights. We expect the two Cashier Supervisors will be adequate for taking care of customer needs related to credit card and other refunds and will monitor this change for customer service and strengthened internal controls.

Please note we do have a compensating control. The compensating control is performed monthly by the Fiscal Manager during review of the monthly reconciliation explanatory notes. Those notes include explanations of credit card refunds on the stand alone credit card terminal and any other adjustments. That monthly reconciliation performed by the Bond Specialist will continue being reviewed by the Fiscal Manager, including credit card refunds with explanatory notes, at the time the JV for reallocation of revenue is prepared as a compensating control. The Fiscal Manager will continue to closely scrutinize all explanatory notations including credit card refunds as part of the reconciliation review during preparation of the reallocation JV.

Finding #2 Outdated point of sale software was still being used.

Management Response

We agree with this recommendation and will be implementing use of new replacement iNovah cashiering software October 16, 2014 with the new eProcess 360 software for Building Permits and Inspections. Shortly afterwards, AdobeLiveCycle software for Business Licensing will be ready for use with iNovah cashiering software. The Department will also be developing software for replacement of the Planning and Zoning software, which will also be accounted for in the iNovah cashiering software in the near future.

Finding #3 Refunds were not always handled in accordance with agency or Countywide Policy.

Management Response

We have reported this finding to the Cashier Supervisors and will remedy the lack of signatures immediately.

Finding #4 The cash balance sheet was not always signed by the cashier.

Management Response

As noted in Finding #3 above, we have also reported this finding to the Cashier Supervisors and will remedy the lack of signatures immediately.

Finding #5 A fund transfer log was not used to document the movement of the seven cash change funds to and from the safe.

Management Response

We will evaluate the possibility of implementing this recommendation.

Finding #6 Payment card receipts were not balanced to the daily terminal report by the employee preparing the deposit.

Management Response

We believe the credit card payment receipts are reviewed and balanced to the daily terminal report. With the new software and reorganization this daily credit card payment balancing review process will be performed by the two Cashier Supervisors rather than the Agency Cashier or her back-up. And we will also research automation options to incorporate single capture of credit card payment information in compliance with PCI Standards. For now, because of cost of purchasing new equipment with new technology, we will continue use of the current credit card processing terminal and enter credit card confirmation numbers only into the cashiering software.

Finding #7 The safe was found unlocked.

Management Response

We strongly agree with this recommendation. Per the Department SOP locking the safe is required whenever cashiers remove or return cash boxes to the safe. As a compensating additional internal control the Fiscal Manager has adopted a practice of personally periodically checking the safe to assure it has been locked appropriately.

Finding #8 Cashiers did not maintain a daily over/short log.

Management Response

As noted in our response to this finding from your previous audit, the Cashier Close-out and Daily Balancing Workbook includes an over/short calculation. This daily workbook is required and retained for review each day, all discrepancies are investigated and explained, and the packet is retained for documentation. We can see an additional benefit in duplicating the over/short information from our Cashier Close-out and Daily Balancing Workbook. We recognize the main benefit being a single sheet of paper record vs review of approximately 20 pages for each day of each month. With new software and the reorganization including two new Cashier Supervisors, this recommendation will be reviewed and implemented to assist the Cashier Supervisors in evaluating at a glance cashier performance.

Finding #9 The deposit documentation lacked a supervisory signature as evidence of review.

Management Response

As noted in our prior response to this finding from your previous audit, we will implement this recommendation and incorporate Supervisor signature as evidence of review.

Finding #10 Credit card receipts were not always signed by patrons.

Management Response

We agree and will implement this recommendation. Additionally, we will research this finding to determine if it is possible to identify if the credit card receipts that were not signed resulted from phone requests or by mail (I doubt we get credit cards by mail). More importantly, we will retrain and reiterate the importance of following the related SOP's and adhering to related internal controls.

Finding #11 Voids were not always handled in accordance with Countywide Policy.

Management Response

We agree with this recommendation and will retrain accordingly.