



## SALT LAKE COUNTY AUDITOR'S OFFICE

**JEFF HATCH**  
*Auditor*

July 12, 2007

Linda Hamilton, Director  
Salt Lake County Public Works Department  
2001 South State Street, Suite N4104  
Salt Lake City, Utah 84190

Dear Linda:

The Internal Audit Division has conducted a limited scope audit of cash handling and depositing at the Sanitation Division. This audit followed your request for us to examine certain issues arising from personnel concerns, including recent changes in personnel at Sanitation.

Specific concerns were that depositing was not timely, and that deposits were sometimes taken to one of the employee's homes overnight before being deposited at the bank. We found both of these claims to be true, and have advised Sanitation personnel on specific procedures that will bring operations into compliance with Countywide policy.

Also, we were asked to determine whether two or more employees worked out of the same cash drawer, and we found this to be true and a matter of routine practice. While best practice is for cashiers to work out of their own cash drawer, Countywide policy currently does not prohibit same-drawer use by multiple cashiers. Your concerns also included various personnel matters, which will be briefly discussed later, and which may be more appropriately handled by Public Works and Sanitation administrators and by applying established Countywide personnel policies and procedures.

### **Cash Handling and Depositing**

Administrative operations within Sanitation include management of accounts receivable and receipting of payments, both over the counter at their 7200 South office and through the mail. In fact, an extensive number of payments are by mail. Bank deposits from July 1, 2006 through May 31, 2007 totaled \$281,327.

We conducted a surprise count of collections on one of the days of our examination and found that they matched cash and check composition from recorded receipts, without exception. We congratulate Sanitation staff for this accomplishment.

Due to restrictions on our time, we did not conduct a complete internal control audit of Sanitation operations and excluded an examination of capital and controlled assets or detailed examination of accounts receivable. Therefore, our findings, limited to cash handling and depositing, were as follows:

- **Deposits were not always timely and sometimes occurred days after the State-mandated period of no later than three days following collection.**
- **Deposits were sometimes taken to the home of one the employees prior to being taken to the bank for deposit.**
- **Some overs and shorts were not accurately shown on the balance sheet or reflected in the deposit.**
- **Adequate segregation of duties did not exist between the cashiering, depositing, and invoicing functions, and entering of accounts and posting of payments to the accounts receivable system.**
- **Handwritten receipts were used when an automated cashiering system would have been more practical and effective.**
- **MPF Form 7A was not used for the transfer of funds from one employee to another as required by Countywide Policy.**

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**Deposits were not always timely and sometimes occurred days after the State-mandated period of no later than three days following collection.** One of our main objectives was to determine deposit timeliness, an objective we accomplished by examining a random sample of 59 deposits, out of 123 total, from July 1, 2006 through June 30, 2007. We found that 19 of 59 deposits examined, or 32 %, were made four or more days after receipt of some of the collections within the deposits. Countywide Policy #1062, "Management of Public Funds," Section 3.7.2, states, "*As required by Section 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable but no later than three days after receipt.*"

Table 1 on page 3 shows the number of days lapsed in each deposit from the date of the earliest receipt to the date of deposit.

Timeliness of Deposits		
Days from date of earliest Receipt	Number of deposit Occurrences	Percentage
7 days	2	3.39%
6 days	3	5.08%
5 days	4	6.78%
4 days	10	16.95%
3 days	9	15.25%
2 days	9	15.25%
1 day	20	33.90%
Same day	2	3.39%
<b>Total Sample</b>	<b>59</b>	<b>100.00%</b>

**Table 1.** *Nearly one-third of deposits were made after the time period mandated in Countywide Policy.*

Since receipt totals were not significant on some days, deposits were often not made daily, though the intent was to deposit within three days. Also, the irregularity of deposit timing led Sanitation staff to forget or put off deposit preparation in favor of other tasks and duties, thus creating excessive lag time from receipt to deposit.

Un-deposited funds are not as secure at the Sanitation office as they would be in the bank, and they lose interest that would otherwise accrue from investments made by the County Treasurer. Currently, funds are kept overnight in a lock box within a locked cabinet at the Sanitation office. They could easily be stolen were a break-in to occur.

Preparing and delivering a deposit to the bank each day is warranted because of the amount of collections and number of transactions. The average amount of each deposit we examined was \$2,296, and the average number of receipts in each deposit was 41. One deposit we examined had 106 receipts with collections totaling \$5,400, and the largest deposit within our sample was \$10,000. Because of the volume of transactions and amount of collections, and to ensure compliance with Policy #1062 that requires deposit of funds within 3 days of receipt, a deposit should be prepared each day.

**RECOMMENDATION:**

*We recommend that Sanitation prepare a deposit and deliver it to the bank each day where practicable.*

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**Deposits were sometimes taken to the home of one of the employees before being taken to the bank.** One of the Sanitation employees who routinely prepares the

deposit would take deposits to her home on Friday night if she was at the Sanitation office past 6:00, and thus past bank closing time. She reported that she then took funds to the bank from her house the next morning, Saturday, for deposit. While her intentions were good in making sure that funds were deposited as soon as possible, the storing of funds at home is not secure and could subject them to loss or theft.

Policy #1062, Section 2.3.1.1, states, “*If cash is to be stored in a cash box, each agency location must provide a locked desk drawer, file cabinet or safe where the cash box can be safely secured.*” We discussed depositing procedures with this employee and determined that funds could be placed in the Sanitation safe over the weekend and deposited the following Monday. Sanitation has a large walk-in safe that would provide a secure location for these funds, and would be more secure than the locked cabinet where funds are currently stored.

**RECOMMENDATION:**

***We recommend that funds, collections or prepared deposits be stored in the large walk-in safe overnight when immediate delivery to the bank is not possible.***

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**Some overs and shorts were not accurately shown on the balance sheet or reflected in the deposit.** All receipts are handwritten, and no cash register is currently in use. We totaled receipt copies from all 59 deposits examined and found that they matched deposit amounts except in the following instances: 1) a receipt for \$90 was actually entered into the deposit as \$20, 2) four receipt copies were missing from the deposit preparation packet in three separate deposits, and 3) the cash in one deposit was short by \$40.50.

The Sanitation Internal Services Manager stated that the \$90 receipt deposited as \$20 was likely a mistake by the employee who prepared the receipt. Many receipts in Sanitation are for even amounts, either \$90, for rental of a second garbage can, or \$30 or \$20 for garbage trailers delivered to homes and then picked up and taken to the Landfill once they are filled. A Sanitation employee explained that as a matter of habit the cashier might have entered \$90 on the receipt when the check was really for \$20.

In addition to the balance sheet and yellow receipt copies, each deposit preparation packet included an Excel spreadsheet detailing all receipts in the deposit. This spreadsheet was used as backup for the deposit and matched cash and checks totals on the deposit slip. When tallying receipt copies, we isolated those missing, as noted above, by comparing them to spreadsheet amounts. Those we could not find were likely lost and therefore not included in the deposit preparation packet.

The missing \$40.50 resulted from double-entering a transaction for \$40.50 on the spreadsheet. Then the employee who prepared the deposit apparently did not catch the mistake and tried to adjust it by subtracting \$40.50 in *cash*. The detail sheet for deposit #2358 dated August 4, 2006 included an adjustment line “entry to balance” of \$40.50 that reduced cash. After careful examination, it was determined that receipt #709996 had been listed twice on the detail sheet, resulting in an overstatement of checks by \$40.50. The adjustment brought the *overall total* of the deposit into balance, but resulted in excess cash. As a remedy, the actual cash deposited was \$181.00. The calculated cash received from receipts totaled \$221.50. The deposit was missing cash of \$40.50.

The effects of this transaction can include a customer’s account not correctly being credited, unrecorded revenue, and inaccurate accounting caused by “forcing” the balance of deposits. The next day’s deposit on August 5, 2006, #2359 recorded only \$20.00 in cash. It is unclear what became of the missing cash. However, the person who prepared the deposit did record the \$40.50 as a shortage.

Policy #1062, Section 3.7.3.1, states, “...*all county agencies should balance collections to register (or receipt log) totals and prepare a deposit.*” For the most part, we noticed that deposit preparation was undertaken with diligence and care, including retention of deposit slip copies clearly stamped with the bank’s validation. These actions by Sanitation employees are commendable.

However, missing receipt copies or inaccurate receipts may bring into question the integrity of the deposit. Also, trying to correct for errors by entering “adjustments” to the spreadsheet only creates additional errors. Receipt totals should be verified and remain as tallied. The employee who prepared the deposit explained to us that the \$40.50 adjustment to the spreadsheet was her attempt to match deposit totals to balance sheet totals. Such “adjustments” are not necessary, and can be eliminated by re-verifying or re-calculating totals. Overs or shorts that do occur from time to time, should be reflected in the deposit. If a shortage occurs, the deposit should be shorted, and vice-versa for an overage.

#### **RECOMMENDATIONS:**

- 1. We recommend that all cash be deposited regardless of amount or anticipated error and that all overs and shorts be reflected in the deposit.***
- 2. We recommend that no “adjustments” be made to the deposit detail spreadsheet to force it to match balance sheet detail, and that instead, transactions be re-tallied to ensure accuracy and isolate errors for bringing the deposit spreadsheet into balance with the balance sheet.***

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**Adequate segregation of duties did not exist between the cashiering, depositing, and invoicing functions, and entering of accounts and posting of payments to the accounts receivable system.** Currently, three employees are on staff to handle cashiering, depositing, billing and posting of payments to the accounts receivable system. According to accepted internal control practices, the duties of invoicing, posting and cashiering should be segregated. Current staff size, however, is insufficient to accomplish this process. Two employees are required for cashiering, one of whom also prepares and mails invoices to Sanitation clients. Moreover, the Internal Services Manager updates accounts in the accounts receivable system and also prepares the deposit, presenting another breach in segregation of duties. Currently, she is not receiving payments, a practice that should remain in force.

Sanitation has an extensive accounts receivable system due to delivery of garbage disposal trailers to individual homes or businesses. Depending on the trailer type, the person pays the \$30 or \$20 fee upfront, signs a contract, and then pays an additional tipping fee after Sanitation picks up and takes the refuse-filled trailer to the landfill. The Sanitation worker receives a slip of paper from the landfill specifying the weight and tipping fee incurred and delivers it to the Sanitation office for preparation of billing to the client. The accounts receivable system, referred to as "Sani," was developed internally in 1990 by I/S and the current Internal Services Manager in Sanitation. One improvement that could be made to the system is the allowance for entering receipt numbers from client payments.

Lack of segregation of duties in these vital areas presents an opportunity for employees to conceal theft. Sanitation fiscal operations are currently down one employee on staff. Once a new person is hired, he or she will be able to take over the accounts receivable function. In the meantime, as a mitigating measure, one of the cashiers should be assigned to verify the deposit by tallying receipts, counting cash and checks, and comparing the receipt tally to the collections count.

As an additional finding, we noted that the balance sheet was not signed by the individual who prepared it. Without this signature, responsibility for accounting of funds cannot be established.

**RECOMMENDATION:**

- 1. We recommend that the balance sheet be signed by the individual who prepared it, and that a second person verifies the cash count and sign the balance sheet.*
- 2. We recommend that a new employee be hired in the cash handling and office administration area to help with cashiering functions and thus create a more efficient segregation of duties.*

3. *We recommend that, as a short-term solution, the “Sani” on-line system for tracking accounts receivable is programmed to allow for receipt numbers to be entered once payments are made; and that Sanitation management develop an automated cash registering system integrated with an accounts receivable management system. (See recommendation in the following section).*

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**Handwritten receipts were used when an automated cashiering system would have been more practical and effective.** Handwritten receipts have continued to be used as an established practice in Sanitation operations, possibly due to a lack of knowledge regarding more technologically advanced alternatives. Moreover, insignificant receipt volume on some days may have led Sanitation personnel to believe that handwritten receipts were sufficient.

We noted in our deposit testing that as few as 10 transactions totaling \$300 occurred on some days, while other days had as many as 40 transactions totaling \$1,500. About 93% of payments were by check, the rest were by cash. Sanitation is anticipating credit card acceptance, but so far, their system for doing so is not operational. Policy #1062, Section 2.3.1.2.3, states, *“If total cash receipts exceed \$1000 per day, an on-line register with [a locking cash drawer that produces a detail tape and double receipt tape] is recommended.”*

Handwritten receipts create a lack of efficiency because each receipt has to be tallied for deposit preparation, and sometimes they are difficult to read. Moreover, receipt sequencing is a problem. Though all receipts were pre-numbered and bound in books of 100 each, we noted that the first number in the subsequent book did not follow the last number in sequence of the previous book.

Currently, Sanitation has hardware installed and has spent \$1,200 on the purchase of the Quickbooks software “Point of Sale,” version 5.0, for cashiering and processing of transactions. I/S personnel installed this software. However, a lack of expertise within Sanitation has prevented its implementation and use. Cashiering personnel explained that they asked I/S for training on the software. However, I/S does not have specific expertise on off-the-shelf packages, and therefore they gave responsibility for implementation and training to Sanitation personnel. Moreover, part of the plan that I/S designed was for Sanitation to purchase an implementation and support contract from an outside vendor, together with the software purchase.

Sanitation personnel told us that they had previously purchased another software package for cashiering operations that included 3 components. However, I/S told them that the package had security issues and therefore could not be used, following which the Point of Sale software was purchased. We asked one of the cashiers what needed to be

done to make the software operational. She pulled an instruction manual from her drawer and, with apparent frustration because of her work load, said that she needed to read it. Sanitation also purchased a pop-out cash drawer that has yet to be installed.

The cashier also stated that Intuit, the company that produces Quickbooks, will provide installation instructions over the phone at any time during a 90-day period for a fee of \$399. This is a reasonable option that should be explored and pursued to make the system operational. Since Quickbooks Point of Sale has been purchased, it should be installed, tested and used in customer transactions until a better or more viable option becomes available.

**RECOMMENDATION:**

*We recommend that Sanitation implement its on-line cashiering system to replace the manual receipting process, and that necessary resources be obtained for its implementation and training in its use, operation and functionality.*

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**MPF Form 7A was not used for the transfer of funds from one employee to another as required in Countywide Policy.** Receipt #120296 included a note that a check for \$11,845.30 was transferred to another public works employee. However, Form MPF 7A was not on file. According to Policy #1062, Section 2.4.2, “*Funds to be transferred include all cash and cash items (e.g. unreimbursed disbursement receipts), checks for deposit, uncashed reimbursement checks, etc. The transfer of funds to the new Agency Cashier or Cashier is effected through completion of MPF Form 7A, Transfer of Funds Receipt.*” An example of MPF Form 7A is shown as Attachment A to this letter.

**RECOMMENDATION:**

*We recommend that MPF Form 7A be used whenever funds are transferred to another agency to facilitate verification of receipt by agency personnel*

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**Personnel Issues**

We interviewed current and former employees to determine their satisfaction with work at Sanitation, the level of morale there and their feelings about the group of employees with whom they worked. We found varying opinions about work environment and specific individuals within Sanitation, some positive and some negative. Most personnel issues may be more appropriately discussed in private, rather than in this



Linda C. Hamilton, Director  
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letter. We found a great disparity in the experience level and longevity of administrative employees. Only one is a long-time employee of Sanitation while the rest have been there less than ten years.

Workload is an issue that needs to be addressed, as two employees alone fulfill all cash handling duties, including both receipting of payments made over the counter and payments by mail. They also answer a near-constant stream of phone calls from citizens reporting their garbage not being collected or making other comments about refuse collection service.

Time is reported using the PWRK on-line system developed by our own I/S Division. Time reporting is an issue we will leave for Public Works administration to examine as employee movements throughout the day and presence at their desks are issues best monitored by supervisors within the Division itself.

We trust that the work we have performed will serve to improve operations within Sanitation and continue to reinforce the importance of sound procedures for handling cash and preparing deposits that will serve to prevent fraud and preserve the integrity of County funds. We have gained an understanding of some of the challenges faced in Sanitation and feel that a cohesive work team can be developed that will advance Sanitation's mission if efforts are made to implement our recommendations. Finally, we express our appreciation to Pam Roberts and her staff for their great cooperation and willingness to provide information to us to complete the audit.

Sincerely,

James B. Wightman, C.P.A.  
Director, Internal Audit Division

CC: Pam Roberts

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Salt Lake County

**FUND TRANSFER RECEIPT**

MPF Form 7A

DATE \_\_\_\_\_

AGENCY \_\_\_\_\_

NAME OF INDIVIDUAL TRANSFERRING FUNDS \_\_\_\_\_

AMOUNT TRANSFERRED \_\_\_\_\_

Loose Coins \_\_\_\_\_

Currency \_\_\_\_\_

Checks \_\_\_\_\_

Total \_\_\_\_\_

TRANSFERRED TO \_\_\_\_\_

Signature

Agency

mp7A(8/90)

Original-Depositing Agency

Yellow-Courier

Pink-Transferring Agency