SALT LAKE COUNTY AUDITOR'S OFFICE

JEFF HATCH
AUDITOR

August 17, 2010

Gary Ott
Salt Lake County Recorder
2001 South State Street, N1600
Salt Lake City, UT 84190

Dear Gary:

We recently completed an audit of internal controls and operations in the Recorder's Office. Our scope was limited to cash handling, and management of capital and controlled assets, and accounts receivable. We performed this audit at your request to address whether cash was handled correctly and according to policy. Therefore, we determined areas of improvement to provide greater assurance of proper accounting and deposit of all collections into the bank. Larry Decker was the lead auditor.

Our audit objectives were to determine whether:

- Collections were receipted accurately and securely handled to ensure complete and timely bank deposit.

- Capital and controlled assets were located in the Recorder's Office and managed in a way to prevent loss.

- Employees managing accounts receivable were separate and distinct from employees handling cash.

Our work was designed to provide reasonable, but not absolute, assurance that the system of internal controls was adequate, records current, and daily transactions valid. As our examination of transactions was based on a test of sampled items, there is a risk that we would not have discovered theft because it occurred in items not selected for review.

CASH HANDLING AND ACCOUNTS RECEIVABLE

Four stations or cash register terminals are used for receipting payments and recording documents. Documents are either presented in-person at the Recorder's Office or transmitted electronically. Document recording and processing, and cash receipting are facilitated by a management system developed by SIRE Technologies. Integrated within the system is a separate cashiering module called Cash Pro.

Cashiers make selections in Cash Pro from a touch-screen menu. They enter charges for recording fees based on the type of document presented, and issue receipts to patrons. Cash and checks are accepted as tender for payment, but not debit or credit

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cards, due to merchant fees related to payment cards. Money collected is secured in a pop-out drawer underneath the counter.

Cashiers also use Cash Pro to balance their drawers, entering the amount of each denomination, and then generating a balancing report that prints off as a tape. On the tape, the count is compared to system totals. Differences, if any, are shown. Individual balancing tapes are filed with other deposit preparation material.

Two employees prepare the deposit and sign a consolidated report of cash register activity, also generated from Cash Pro. A Protective Services officer collects the deposit bag and takes it to the Treasurer's Office where an armored car service retrieves it for bank deposit.

Cashiers are alerted to electronic submissions of documents by a message at the bottom of their screens. The cashier retrieves the documents into view, and either accepts or rejects them. Accepted documents are recorded, and the fee is entered and automatically transferred out of the patron's bank account. Companies or patrons wishing to file electronically complete an application form that allows automatic transfer of recording fees. Cashiers cannot directly access accounts, either to view them or otherwise make transfers.

The Recorder's Office also offers internet access to its records and documents for a fee. Subscribers to this service are invoiced monthly via email. Accounts receivable created because of these invoices are recorded and managed in QuickBooks. Dunning letters are sent to individuals delinquent in their payments. Once the Recorder's Office exhausts its collection efforts, accounts are referred to the District Attorney's Office.

Deposits were timely, deposit documentation was orderly and consistently filed, overages and shortages were infrequent, and there was one cashier per drawer. Cashiers also balanced out when they went to lunch, an extra step that demonstrated conscientiousness in ensuring accurate accounting of funds. We sampled 28 deposits from July 15, 2009 through July 14, 2010 and found two outages, both less than $10. Petty cash and change funds balanced to their authorized limits. Management enthusiastically embraces Cash Pro and the operational efficiencies it creates.

We commend Recorder's Office management for its attention to accurate cash handling and its concern that all funds be handled according to County policy. There were, however, some areas for improvement.

Our findings are the following:

➢ *Voided transactions were not explained or signed off by a supervisor, and the over/short log was not used.*

➢ *A detail transaction report was not available for review, the system sometimes made addition errors on daily totals, and a receipt did not generate for "no sale" transactions.*

➢ *The accounts receivable manager maintained a receipt book that gave the appearance of collecting cash.*

➢ *There was no independent reconciliation between Cash Pro and QuickBooks.*

Voided transactions were not explained or signed off by a supervisor, and the over/short log was not used. Voids occurred in 18 out of 28 transactions, or 64% of deposit days examined. We only discovered voids because Cash Pro included them on the daily balancing tape. No voided receipts were retained, or even printed. Voids had no documented explanations or signatures of cashiers or supervisors to indicate review and approval.

Countywide Policy #1062, "Management of Public Funds," Section 3.5.2.2, states:

> *"When it is necessary to void a receipt, all copies will be marked "void," including the original (customer) copy, if available. The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction…A supervisor not involved in the transaction will review and sign the voided receipt along with the cashier who initiated the void. The voided receipts will be filed…and kept for audit purposes."*

Voids require review and oversight because they otherwise could conceal theft Money stolen could be deleted from the system by reversing a transaction as a void. Voids were not handled as they should have been because of lack of awareness of correct procedure. Also, automation tends to create a feeling that manual processes, like signing off on voids, are no longer necessary. As soon as we brought this issue to management's attention, they took corrective action.

Regarding the Cash Over/Short Log, management was not aware of the log or its required use, and they felt that daily balancing reports provided sufficient documentation of outages.

Countywide Policy #1062, Section 2.53, states:

> *"All overages and shortages…must be recorded…daily by the agency on MPF Form 11, CASH OVER/SHORT LOG."*

When the log is not used, cashiers and supervisors lack adequate overview of balancing trends. Without this overview, the need for corrective action may not be seen or considered. We provided copies of MPF Form 11 to your office during our audit work.

***RECOMMENDATIONS*:**
1. ***All voided receipts should be retained with daily deposit documentation, reviewed and signed by the cashier and a supervisor, and an explanation documented on the receipt.***

2. ***Each cashier should maintain an MPF Form 11, Cash Over/Short Log, and these logs should be retained on file for three years.***

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A detail transaction report was not available for review, the system sometimes incorrectly added daily totals, and a receipt did not generate for "no sale" transactions. As standard business practice, a detail transaction listing is often

included in deposit preparation material to list all transactions or receipt numbers, with the amounts corresponding to these numbers and the form of payment, cash or check, or other type of transaction, such as voids. The value of this list is the supporting detail and backup it provides for the collections total. Details of transactions that result in subtractions from receipt totals are especially valuable.

Recorder's Office personnel were unable to retrieve a detail transaction listing, and the head cashier felt that Cash Pro lacked such capability, or at least did not have a menu option to do so. However, without this list, management lacks a useful transaction-monitoring tool, especially in cases where subtractions occur.

Currently, checks are listed on the system totals tape, though only by amount and not by any detail of receipt or transaction number. Cashiers felt the check listing helped them locate errors if they were out of balance. Since a check listing is already printed on each cash register's system totals and balancing tape, adding cash transactions, voids and any other negative amounts, and identifying them by transaction or receipt number would logically be within reason.

As another system issue, we noted that cash and check totals, when added together, sometimes did not equal the grand total, or "deposit total," shown on the system totals and balancing tape. Though infrequent and of small amount, cashiers found this problem occurring when they were over in their drawer counts. Though relatively insignificant, this problem does create a certain amount of confusion when balancing. For example, during our surprise count of Recorder's Office cash register drawers, we noted that $2 in cash reported on one of the cash register's system totals tapes was not included in the grand total, or "Deposit Total." Management has addressed this concern with the vendor, but so far, no solution has been found.

Finally, we noted that the system did not generate a receipt for "no sale" transactions, or events where the cashier opened the drawer without a transaction taking place. In our audit process, we ask a standard question of agencies about whether "no sale" receipts are signed by a supervisor. Without this review, greater opportunity is present to open a drawer to steal money.

*RECOMMENDATIONS***:**
1. *Management should ask the software vendor if a detail transaction listing can be viewed and printed that shows a listing of receipts and transactions, including transactions where subtractions occur from receipt totals. If the list is available, the Recorder's Office should ask if it can be printed on the system totals and balancing tape produced at each cash register.*

2. *Consultation with the software vendor should continue for finding a solution to cash and check totals that incorrectly add, in some cases, to the grand total or "deposit total."*

3. *Management should work with the software vendor to determine feasibility of generating a receipt each time the cash drawer opens without a transaction taking place, and having a supervisor sign and authorize this receipt.*

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The accounts receivable manager maintained a receipt book that gave the appearance of collecting cash. In 2009 the accounts receivable manager issued manually written receipts totaling $6,632 - $2,785 in cash and $3,847 in checks. These

receipts represented in-person payments from subscribers to the Recorder's on-line document viewing service. Subscribers to this service are charged for each document they view. A basic monthly charge accrues to them whether or not they view any documents. As of July 31, 2010, the Recorder's Office listed 858 subscribers. Cash Pro includes payments from subscribers under a category called "data services."

Normally, the subscriber sends a check by mail. No system is in place for on-line payments. However, each time a subscriber pays in person, a cashier calls the accounts receivable manager to the front. She then issues a manual receipt to the patron and guides him or her to the cashier if the payment is in cash. If payment is by check, the patron still receives a manual receipt.

Employees who bill clients should not also collect from them because theft could more easily be concealed. The debt could be absolved from accounts receivable records and the money pocketed. The manager stated that she does not accept cash – only cashiers do so – even though she issues a receipt. However, she does take checks received from subscribers to her office, and includes them with other checks received by mail. She then transfers this batch to one of the cashiers for system input and deposit.

The Recorder's Office reported that checks received by mail are opened under dual control. One of the individuals in this process is the accounts receivable manager. Dual control mitigates a violation of segregation of duties if she were to otherwise to open the mail alone.

We found no ready reason for manually receipting patrons or for the redundancy in patrons being issued a manual receipt followed by a Cash Pro receipt. The receipts might have helped in updating accounts within QuickBooks since Cash Pro and QuickBooks do not communicate electronically. However, the accounts receivable manager did not provide such an explanation.

Manual input in QuickBooks is required to mirror payments entered into Cash Pro for data services, or payments from subscribers. Creating a seamless electronic system is a cost that the Recorder's Office at this point is not ready to incur.

Redundancy in double-receipting, and conflict in having the same employee bill and collect from subscribers, at least when payment is by check, are processes that should be changed to create better efficiency and ensure proper segregation of duties.

As one option, cashiers could communicate in-person payments on account by phone to the accounts receivable manager. She would then note these in a log for reference when updating QuickBooks accounts. Other options are available that would allow the accounts receivable manager to update QuickBooks without issuing receipts from a manual receipt book.

RECOMMENDATION:
The accounts receivable manager should discontinue issuing receipts from a manual receipt book and as an alternative, cashiers should communicate in-person receipt of payments on account to her for updating QuickBooks records.

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There was no Independent reconciliation between Cash Pro and QuickBooks. Each day, the accounts receivable manager determines whether receipts

entered into Cash Pro under the "data services" category match receipts she has entered into QuickBooks. Payments entered into QuickBooks reduce accounts receivable balances. She reviews and files the following documents in this process:

1) Consolidated Register Report. (Cash Pro)
2) Consolidated Group/Pay Class Report. (Cash Pro)
3) Tape showing a listing of all payments for data services. (Cash Pro)
4) Data Services – SL Co Recorder General Ledger. (QuickBooks)

The Consolidated Group/Pay Class Report has a line item, "Data Services Payment," that should match the QuickBooks Data Services General Ledger total. While her review and retention of documents is commendable and a process that should continue, an employee independent of accounts receivable management or cash receipting does not perform the reconciliation.

The system is vulnerable to concealment of theft when accounts receivable managers also perform the reconciliation. They could manipulate payments recorded in the accounts receivable ledger to match the cashiering system total when in reality a difference exists. Unaware of the segregation of duties issue, management placed implicit trust in the accounts receivable manager to perform all related duties.

While the fiscal manager does place his initials on the Consolidated Group/Pay Class Report, after the accounts receivable manager presents it to him, no reconciliation to the QuickBooks ledger is performed. Reconciliation occurs when total receipts entered into QuickBooks are compared to Cash Pro receipts.

RECOMMENDATION:
The fiscal manager, or someone other than a cashier or the accounts receivable manager, should reconcile QuickBooks accounts to Cash Pro by comparing the General Ledger total of payments for the day to the report of data services payments in Cash Pro. The reconciliation should be noted as "Reconciled," on the QuickBooks general ledger hard copy, including the date and his signature.

CAPITAL AND CONTROLLED ASSETS

In addition to capital assets, the Recorder's Office lists 655 controlled assets on site. On their Controlled Assets List, the Recorder's Office included model and serial numbers, where available, for all 655 items, and attached large-letter labels of model and serial numbers to the items.

Meticulously recording these numbers, especially with so many items on hand, is commendable and represents as complete a record as any seen in the County. We found all capital assets on site, and all controlled assets from a sample of 105 out of the 655 total. Employees signed forms for controlled assets assigned to them, as required by Countywide Policy, #1125, "Safeguarding Property/Assets." While we commend these accomplishments, we note some areas needing further attention.

Our findings in capital and controlled assets are as follows:

➢ ***Some controlled assets were not tagged.***

➢ ***Unique controlled asset numbers generated by the Recorder's Office were not attached, and the controlled assets list was divided into several sections instead of a single viewable unit.***

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Some controlled assets were not tagged. While most controlled assets we observed were tagged, we noted the following exceptions:

1) Computers located at the front counter at each cashiering station.
2) Electronic wands at the front counter for reading payment cards.
3) Drafting table.
4) Various chairs and cabinets.

The Recorder's Office has the option of including chairs and cabinets on their controlled assets list, though some cabinets are so big that likelihood of theft is remote.

Countywide Policy #1125, "Safeguarding Property/Assets," Section 1.2, states:

"Controlled Asset – personal property items having a cost of $100 or greater, but less than the current capitalization rate, and which are sensitive to conversion to personal use..."

Though they are unlikely to be stolen, big cabinets and chairs should be tagged if they are identified on the list. The fiscal manager has since stated that untagged computers and wands are now tagged.

 ***RECOMMENDATION*:**
All items on the controlled assets list should be tagged, including chairs and cabinets if management deems these as items appropriate for the list.

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Unique controlled asset numbers generated by the Recorder's Office were not attached, and the controlled assets list was divided into several sections instead of a single viewable unit. As already noted, the Recorder's Office places large-font labels of model and serial numbers on its controlled assets. However, they attach no unique internally generated number labels, with numbers typically being 4-digits in length. Management feels that current labeling is sufficient, and indeed, controlled assets are properly identified with model and serial numbers.

However, serial numbers take longer and are more difficult to read, thereby creating a more time-consuming and cumbersome management and oversight process. To highlight this difficulty, we noted a few instances where one or two digits would be recorded incorrectly on the list. Attaching a 4-digit label would allow faster, easier and more accurate identification.

Many County agencies attach labels, similar in size and design to the capital asset tag, to controlled assets. However, despite the need for labeling with unique

internally-generated numbers, the Recorder's Office should continue its procedure of recording and tracking serial and model numbers.

Also, we found the controlled assets list on an Excel spreadsheet divided into 118 separate tabs, a useful and practical way to show items by an individual's name or the areas where they are assigned. This allows for easy printing and distribution of lists to employees for their signature.

However, a general list was not available. Without a general list, management lacks broad overview of controlled assets for adequate and efficient tracking. As a best business practice, a general list, in addition to a compartmentalized list provides for efficient controlled asset management.

***RECOMMENDATIONS*:**
1. ***The Recorder's Office should attach a unique, internally generated number, typically 4-digits in length, to each controlled asset to more efficiently manage these items.***

2. ***A general controlled assets list, in addition to the compartmentalized list, should be produced to allow for better overview and tracking of items.***

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We trust that our recommendations will improve operations in the Recorder's Office and provide for greater compliance with Countywide Policy and best business practice. We appreciate the help and thoughtful input from Recorder's Office management and staff during this audit and their eagerness to implement the recommendations we made. We hope that what we examined and the recommendations we made fulfilled your desires in requesting this audit. Your continued attention to existing internal controls and implementation of recommendations for improvement will help ensure continued success in carrying out your vital function to Salt Lake County.

Sincerely,

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

Cc: Tonya Keller
        Rocky Hanson