

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



An Audit of the Key Controls of
Employee Service Reserve-Non Statutory Benefits

March 19, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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March 19, 2013

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 Employee Service Reserve-Non Statutory Benefits

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Employee Service Reserve-Non Statutory Benefits 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 Employee Service Reserve-Non Statutory Benefits and the cooperation from Brett R. Carlson, ESR Accounting Manager, Cindy Pace, Budget Analyst, Rob Beesley, Accountant, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Employee Service Reserve-Non Statutory Benefits 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

A handwritten signature in blue ink that reads "Anita C. Kasal". The signature is written in a cursive style.

By Anita C. Kasal
Deputy Auditor

cc: Lance R. Brown, Director of Planning and Budget
Brett R. Carlson, ESR Accounting Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Employee Service Reserve-Non Statutory Benefits (ESR-NSB). 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

ESR-NSB has put into place key internal controls for managing employee funds and safeguarding employee assets. Most risks identified were minor and would not be expected to result in the material loss of County assets. Deficiencies in certain internal controls over cash receipting and transferring have a higher likelihood of leading to loss of County property.

Findings, Recommendations, and Management Responses

Finding # 1 - No transfer receipt or similar form was used in the delivery of checks.

Risk Level: **Moderate**

Countywide Policy #1062 "Management of Public Funds," Section 2.3.4 states:

"...The cashier to whom the funds are transferred shall sign the MPF Form 7A."

ESR-NSB did not use a transfer receipt or similar form when transferring checks from and to other County agencies.

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

Recommendation

We recommend an MPF 7A "Fund Transfer Receipt," or similar form be used to document transfers between agencies.

Management Response

Management concurs with the recommendation to document transfers between Human Resources and Mayor Finance. This recommendation has been implemented. The ESR Fund Accounting Manager in Mayor's Financial Administration and Benefits Manager in Human Resources will prepare document transfer forms whenever a check is exchanged between offices.

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

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. This procedure restricts the disposition of the check "for deposit only," to the Agency's authorized bank account."

ESR-NSB checks were not immediately endorsed with the Agency's restrictive endorsement stamp upon receipt.

Not restrictively endorsing checks upon receipt places funds at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that checks be restrictively endorsed immediately upon receipt.

Management Response

Management concurs with this recommendation to restrictively endorse checks upon receipt. This recommendation has been implemented. The ESR Fund Accounting Manager in Mayor's Financial Administration and the Benefits Manager in Human Resources will restrictively endorse all checks upon receipt.

Additional Information

Background

The Employee Service Reserve Fund (ESR Fund) was established so that Salt Lake County employee and retiree benefit expenses could be accounted for in one fund. The fund is to provide the followings: consolidation of revenues and expenses for all benefit programs, allocation of benefit costs to organizations, accumulation of appropriate reserve levels, and financial control and management of benefits. The ESR Fund consists of six organizations as follows: Non-Statutory Benefits (5300), Administration (5301), Statutory Benefits (5302), Early Retirement (5303), Wellness Program (5304), and Fitness Center (5305).

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 January 07, 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.