A REPORT

TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR

An Audit of the Key Controls of

Salt Lake County Recorder

December 17, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 17, 2013

Ben McAdams, Mayor
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Re: An Audit of the Key Controls of Salt Lake County Recorder

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Salt Lake County Recorder 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 Salt Lake County Recorder and the cooperation from Brenda Miller, Data Services Supervisor, Holly Hutchison, Fiscal Coordinator, Dottie Sinfield-Ellis and Karma Blanchard, Division Administrators, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Salt Lake County Recorder 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: Gary Ott, Recorder
Tonya Keller, Chief Deputy
Rocky "Earl" Hanson, Fiscal Division Administrator

Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Salt Lake County Recorder. 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

The Salt Lake County Recorder has put into place key internal controls for managing public funds, safeguarding public assets, and payroll reporting. Most risks identified were minor and would not be expected to result in the material loss of County assets. Deficiencies in internal controls over accounts receivable have a higher likelihood of leading to loss of County property.

Findings and Recommendations

Finding # 1 - The A/R manager's duties were not properly segregated.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 5.4 states that:

"The employee who maintains the A/R (accounts receivable) ledger shall be separate from the employee who prepares invoices and the employee who collects payments."

The A/R manager was performing duties including: the opening of new customer accounts, invoicing the customer, receiving and posting customer payments, preparing aging reports, voiding customer charges, writing-off the past due accounts, and holding the administrative rights to Quickbooks.

When maintainence of the A/R ledger and all the posting functions are performed by the same person, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the A/R duties are properly segregated.

Finding # 2 - The Fiscal Manager's decision to write-off uncollectable A/R balances was not being acted upon.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 6.3.1 states:

"...When a County department or agency writes-off an accounts receivable amount, the elected official, division head, or designee shall approve the write-off. The official who approves the write-off must not be directly involved in recording and collection of accounts receivable. Sufficient collection efforts shall take place before writing-off an account. Approval for the write-off shall be evidenced by a letter from the elected official, division head, or designee. The letter shall be placed in the debtor's file."

Each month the Fiscal Manager was reviewing uncollectible accounts, noting the ones to be written off, and signing the monthly Accounts Receivable Aging Schedule. However this authorization was not being returned to the A/R manager and her action to write-off a past due balance was not properly authorized.

When the A/R manager was asked about the Fiscal Manager's selected write-offs, she indicated she didn't act on his decision but her own decision.

When the County designee is not the authority for a write-off of an uncollectible A/R balance, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the write-off of uncollectible balances in A/R be properly pre-authorized by an elected official, division head, or designee.

Finding # 3 - The A/R ledger was not reconciled monthly.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection." Section 5.3.2 states that:

The ledger of A/R (accounts receivable) shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step."

The A/R ledger was not reconciled on a monthly basis to the Balance Sheet. It was determined that it had been several years or more since the ledger balanced to the Balance Sheet.

When a reconciliation of the A/R ledger is not performed monthly, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the A/R ledger be reconciled each month to the Balance Sheet.

Finding # 4 - The letter to notify an A/R customer that collection process was starting was inaccurrate for balances under $50.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Sections 2.1.5 and 6.1.1 state:

"Collection policies and procedures adopted by an office or agency of the County must be reasonable and ensure fairness to all debtors. The provisions of the Fair Debt Collections Practices Act, while not applicable to the County as a governmental entity, may be used as an appropriate guideline in determining reasonable and fair collection practices. This Act prohibits abusive debt collection practices, limits communications with debtors, and prohibits harassment or abuse. The Act also prohibits use of false or misleading representations, unfair practices, and other unprofessional conduct."

"In determining whether to transfer an account, consideration should be given to whether collection costs are greater than the amount to be collected. Therefore, amounts of less than $50 should be written-off at the agency level."

The letter used to notify an A/R customer that a past due collection was starting was misleading for accounts with balances under the $50 limit.

Auditor was furnished a copy of the collection letter which stated "It is necessary to clear the balance on this account to prevent the account from being turned over to the District Attorney Litigation Division for collections."

When a collection letter for a balance under the threshhold of DA collections, makes a false threat the collection process is weakened, credibility is lost, and the County may be at a higher risk for customer law suits.

Recommendation

We recommend that the collection letter is not misleading in its statements, and follow the provisions of the Fair Debt Collections Practices Act.

Finding # 5 - A/R checks received by mail were not immediately endorsed.

Risk Level: Moderate

Countywide Policy #1062, Management of Public Funds," Section 3.6.1 states that:

"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."

Checks received in the mail for A/R were not immediately endorsed with the approved Agency endorsement.

When checks are not endorsed immediately upon receipt using the Agency's approved restrictive endorsement stamp, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that A/R checks are immediately endorsed upon receipt.

Finding # 6 - The change fund was not divided among the number of cash registers (collection points) and it was not entirely counted daily.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Sections 2.7.5 and 3.8.2 state:

"The change fund allocated to an Agency may be divided into separate amounts according to the number of cash registers or other cash collection points...Change funds should be counted, restored to the established imprest balance, and any daily shortages or overages recognized..."

The $600 change fund was not divided according to the number of cash registers or other cash collection points. The part of the change fund kept in a safe was not being counted daily.

When a change fund is not divided according to the number of cash registers and a part of the change fund is not counted daily, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management divide the change fund according to the number of cash registers and each part of the change fund is counted daily.

Finding # 7 - The A/R manager was voiding invoices to reduce a past due A/R balance.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," states in the Purpose that:

"The purpose of this policy is to: Establish a policy and procedures for management of accounts receivable, including proper filing, record keeping, and follow-up with individuals or companies that owe money to Salt Lake County."

The A/R manager was increasing a liability (unearned revenue) when a new customer prepaid a $25 deposit. When a customer's balance was past due rather than decreasing the liability (unearned revenue) as an offset to the A/R adjustment, the A/R manager was voiding the last invoice.

When the A/R manager can void invoices without supervision or authorization, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend the A/R manager not void invoices to reduce past due balances.

We recommend that the Unearned Revenue account be established on the A/R system at its accurate level if management is going to recognize the prepaid through this liability account.

Finding # 8 - MPF Form 11, "Cash Over/Short Log," was not signed by a supervisor.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 5.3.1.3 states:

"The MPF Form 11, for each Cashier, shall be signed by the Cashier's immediate supervisor."

All MPF Form 11 logs that were reviewed from February 2013 to August of 2013, were not signed by a supervisor. Prior to February of 2013 cash overages and shortages were not recorded on MPF Form 11.

When overages and shortages are not reviewed and signed by a supervisor, accountability for overages and shortages is not ensured, trends may not be noted, and needed training and/or remediation may not occur.

Recommendation

We recommend that the cashier supervisor sign for recorded overages and shortages on MPF Form 11.

Finding # 9 - The staff was not signing a transfer log when moving the change fund to and from the safe.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 2.7.5 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."

While observing staff, a transfer log was not used when moving the change fund to and from the safe.

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 that cashiers sign a transfer log each time the change fund is moved to and from the safe.

Finding # 10 - The authorized $500 petty cash fund was excessive.

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."

In the first eight months of 2013 the petty cash custodian expended $80.27 from their $500 petty cash fund.

Excessive petty cash funds are at a greater risk of misappropriation because timely reviews of disbursements by agency management are delayed.

Recommendation

We recommend that the petty cash custodian reduce the petty cash fund to provide adequate operating funds for 2 months.

Finding # 11 - The review of the Consolidated Register Report was not documented by a signature.

Risk Level: Low

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

'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."

When auditors examined the Consolidated Register Report a visible review of checkmarks was present but the reviewer was not signing the report.

When a reviewer does not document the review with a signature, the integrity of the report is compromised.

Recommendation

We recommend that the reviewer of the Consolidated Register Report sign by the line on the report "Checked By."

Finding # 12 - Voided receipts were not handled correctly.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state:

"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."

Eight out of ten voids reviewed did not include a supervisor signature and an explanation of the voided transaction. Six out of sixteen deposits reviewed, which included voided transactions, did not include voided receipts.

Without evidence of supervisor review and an explanation of the voided transaction, voided receipts could easily be used to conceal misappropriation of funds.

Additionally, when voided receipts are not kept with the daily cash balance sheet, the difficulty of the audit review process increases.

Recommendation

We recommend that an explanation of the voided transaction and a supervisor's signature be documented on voided receipts.

We recommend that voided receipts be kept with the daily cash balance sheet.

Finding # 13 - The cashiering system does not produce sequentially numbered receipts.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.5.6 states:

"The online cashiering system shall produce receipts in a sequentially numbered order..."

There were 5,243 out of 227,901 transactions missing from a report query for all 2013 transaction details,

When the cashiering system does not produce receipts sequentially, there is an increased risk of funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend a cashiering system that of which produces sequential receipts be used.

Finding # 14 - MPF Form 3A, "Cash Balance Sheet," or similar form was not always signed by cashiers.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1 states:

"All County Agencies should balance collections to cash register (or receipt log) totals and prepare a deposit, using MPF Form 3A, Cash Balance Sheet, or a similar form..."

We found that 94 out of 148 cash balance sheets were not signed by the cashier.

When cash balance sheets are not signed, accountability for balancing collections with the cash register report is not ensured.

Recommendation

We recommend that the MPF Form 3A, "Cash Balance Sheet", or a similar form be signed by each cashier.

Additional Information

Background

The Salt Lake County Recorder's Office is located at 2001 South State Street #N-1600, Salt Lake City. The government of the Territory of Utah created the office of the Salt Lake County Recorder in 1852. Documents were to be recorded in "good and well bound books, suitable for the purpose." The functions of the Salt Lake County Recorder continue to be fundamentally the same. Today, however, those functions are kept by various electronic means. All records in the Recorder's Office are public and are open to inspection during regular office hours.

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 August 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.

Response to the Audit of the Key Controls of the Salt Lake County Recorder's office

December 6, 2013

Finding # 1 - The A/R manager's duties were not properly segregated.

The Recorders office has implemented a new policy and processes that separate the duties. The controls and checks and balances are in place as recommended.

Finding # 2 - The Fiscal Manager's decision to write-off uncollectable A/R balances was not being acted upon.

All write-offs are now approved by a division head as recommended.

Finding # 3 - The A/R ledger was not reconciled monthly

The A/R ledger is now in balance and reconciled monthly.

Finding # 4 - The letter to notify an A/R customer that collection process was starting was inaccurate for balances under $50.

We worked with the DA's office to construct the current letter and have communicated the Auditors current recommendations to them. The call was made that the current letter is sufficient and that we will continue to work with them on collections.

Finding # 5 - A/R checks received by mail were not immediately endorsed.

Procedures for receiving and depositing checks have been put in place so checks can continue to be endorsed at the cashiering stations.

Finding # 6 - The change fund was not divided among the number of cash registers (collection points) and it was not entirely counted daily.

Procedures have been put in place to ensure the change fund is accounted for daily.

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Finding # 7 - The A/R manager was voiding invoices to reduce a past due A/R balance.

Procedures have been put in place as recommended.

Finding # 8 - MPF Form 11, "Cash Over/Short Log," was not signed by a supervisor.

Procedures have been put in place as recommended.

Finding # 9 - The staff was not signing a transfer log when moving the change fund to and from the safe.

Procedures have been put in place as recommended.

Finding # 10 - The authorized $500 petty cash fund was excessive.

Petty cash fund will be reduced as recommended by January 2014.

Finding # 11 - The review of the Consolidated Register Report was not documented by a signature.

Procedures have been put in place as recommended.

Finding # 12 - Voided receipts were not handled correctly.

Procedures have been put in place as recommended.

Finding # 13 - The cashiering system does not produce sequentially numbered receipts.

This is a SIRE issue that will need to be isolated and fixed in the software.

Finding # 14 - MPF Form 3A, "Cash Balance Sheet," or similar form was not always signed by cashiers.

Procedures have been put in place as recommended.

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