

Salt Lake County Auditor's Office

Craig B. Sorensen, *AUDITOR*



David L. Beck
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April 2, 1998

Vaughn E. Butler, L.S.
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Dear Vaughn:

We recently completed a review of the cash receipting and depositing operations, petty cash and change funds, and fixed and controlled assets within your office. While some internal controls are in place, we found a few areas where improvements are needed.

At your request, we also reviewed the cash collection and refund process for Monument Preservation Permits. This letter presents a summarization of our findings and recommendations.

CASH RECEIPTING AND DEPOSITING

Most of the controls which are currently lacking in this area are required by Countywide Policy 1062, Management of Public Funds. Also, since our last audit in 1995, the amount of money collected by the Surveyor's Office has increased significantly which increases the importance of having an adequate system of internal controls. Our findings are:

- C More than one employee share a single cash drawer.**
- C Too many employees have the lockbox combination and access to the cash drawer key.**
- C Cash collected is not balanced in accordance with current Countywide policy.**
- C There is a lack of segregation of duties in, and management review of, the cashiering and depositing process.**
- C There is no approval or verification process for "No charges".**

More than one employee share a single cash drawer. We found that as many employees as are needed to serve customers throughout the day share the one existing cash drawer. On most

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days three to four employees are involved in receiving money, but this number can vary depending on employee availability and the number of customers.

It is impossible to establish individual accountability for money in the drawer if all cashiers share the same drawer. This practice is prohibited by Countywide Policy 1062, section 2.10.1, which states that all agent cashiers and alternates will have their own cash drawer.

One step that can be taken to help alleviate this problem is to acquire a two-drawer cash register. At the onset of our audit, the Surveyor's Office was already considering the purchase of a cash register and actually had one in place on a trial basis. The vendor indicated that upgrading to a two-drawer model could be done for an additional \$300. A two-drawer register will enhance customer service by always allowing the option of having two cashiers working at the same time and also will provide for improved internal control if only one person uses a particular drawer at a time. If the two-drawer register is acquired, the change fund will likely have to be increased from the current \$50.00 to \$100.00.

ACTION TAKEN:

The Surveyor's Office has purchased the cash register and has ordered an extra drawer that will be installed to upgrade it to a two-drawer register.

RECOMMENDATION:

We recommend that each person receipting money operate out of their own cash drawer.

Too many employees have the lockbox combination and access to the cash drawer key. The cash drawer, in which the change fund and money receipted during the day are kept, is locked in a cabinet under the counter during the business day. At the end of the day, the deposit is prepared and put in a tamper proof bag, while the change fund is put in a lockbox that is right next to the cabinet. Both are picked up nightly by Protective Services personnel who transport them to the Treasurer's Office for the processing of the deposit and the overnight safekeeping of the lockbox. The lockbox with the change fund is returned in the morning for the next day's operation.

These are appropriate safeguarding procedures; however, virtually all office employees, with the exception of the field crews, have access to the cabinet key and know the combination to the lockbox. To help prevent possible defalcation and to better identify those potentially involved if funds are missing, physical access to funds should be limited to the maximum extent possible at all times.

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RECOMMENDATION:

We recommend that access to the cash drawer cabinet key and knowledge of the lockbox combination be limited to as few personnel as possible.

Cash collected is not balanced in accordance with current Countywide policy. While examining the Surveyor's cash handling records we found that no daily cash balancing forms and over/short logs were being completed. Through discussions with the change fund custodian and the primary cashier we verified that no formal cash balancing procedures are performed. These procedures should be accomplished to help establish individual accountability for collected funds and are required by Countywide Policy #1062, section 3.7.4, Balancing Procedures.

The policy allows for the use of three different cash balancing forms and two different over/short logs. We suggest your office use the Management of Public Funds (MPF) Form 3A for daily balancing in combination with an MPF Form 10 for recording cash overages and shortages. As the policy states, the use of these forms is preferred from an internal control perspective. In conjunction with our recommendation to limit cash drawer access to one cashier at a time, each cashier should balance out their drawer at the end of their shift and fill out an MPF Form 3A. The "Total Collections Per Register" amounts from each balance sheet should then be combined at the end of the day to prepare the daily deposit.

RECOMMENDATIONS:

1. We recommend that each cashier balance their drawer at the end of their shift using an MPF Form 3A.
2. We recommend that a daily log of the amount of over/short be completed using an MPF Form 10.

There is a lack of segregation of duties in, and management review of, the cashiering and depositing process. Currently, the person that does the majority of the cashiering also prepares the deposit on most days. Although not ideal, this situation would be acceptable if a person, preferably a supervisor, independent of cashiering and deposit preparation, performed and documented a review of the daily cash balancing process and the deposit. We found that neither of these reviews are being done.

Although not required by policy, these reviews are valuable controls. Their main purposes are to ensure that each cashier is completing an accurate balancing procedure at the end of their shift, that the amount of money collected agrees with the amount rung into the register, that all monies receipted are included in the deposit, that the deposit slip is totaled correctly, and that the cash/check

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composition of the deposit agrees with cash and checks collected, according to the balance sheets and register tapes. The person performing these reviews should document the completion of the reviews with a signature.

To facilitate the necessary separation of duties, we suggested that the change fund custodian be removed from the cashing function. This would allow the custodian to perform the reviewing functions. If the custodian continues to be involved with the actual cashing, someone else such as the Assistant Office Manager, Office Administrator, or the Chief Deputy Surveyor would need to perform the reviewing functions.

RECOMMENDATION:

We recommend that a person, preferably a supervisor, independent of the cashing and deposit preparation functions, perform a daily review of these activities, as described above, and document that review with a signature.

There is no approval or verification process for “No charges”. Certain users of Surveyor’s Office services, such as Salt Lake County organizations, other government organizations, and private surveyors doing contract work for a County organization, are allowed to receive those services (or obtain products, such as maps) without paying for them. When this happens, a receipt is still issued; however, the cashier enters an “N” for “No-charge” into the computer system. This produces a receipt that shows how much the services provided would have cost on the “Line Total” section of the receipt, but the “Receipt Total” section indicates \$0.00.

On all such transactions, except those for Aerial Photos, which require the completion of a copyright agreement, there is no independent review of the “No-charge”. Consequently, a cashier could easily receive payment for services, issue a “No-charge” receipt, and divert the money received to personal use. Ideally, all No-charge transactions should be reviewed by a second employee, preferably a supervisor. However, because of the frequency and repetitiveness of some County organizations’ use of the Surveyor’s Office, cashing personnel thought it would be overly burdensome and unnecessary to obtain a second employee’s signature in these cases. Accordingly, we are recommending the use of a review form, which requires a second employee’s signature, for all non-County organizations, and the use of a log, which does not require a review signature, for all Salt Lake County government organizations.

RECOMMENDATIONS:

1. We recommend the development and implementation of a “No-charge review form” for approval of No-charge transactions done with entities outside of Salt Lake County. (See Enclosure 1 for an example)

2. We recommend the development and implementation of a “No-charge log” for approval of No-charge transactions done with organizations within Salt Lake County government. (See Enclosure 2 for an example)

PETTY CASH FUND

In the petty cash area, we have three findings. The Surveyor’s Office has already taken action to rectify the problems associated with two of them. The three findings are:

- C A signature stamp was used by a former fund custodian to circumvent the approval process and make an inappropriate purchase.**
- C Three recent purchases were made for items that are prohibited by County policy from being purchased using petty cash.**
- C The Surveyor’s Office has not budgeted enough for the replenishment of petty cash to allow for the proper operation of the fund.**

A signature stamp was used by a former fund custodian to circumvent the approval process and make an inappropriate purchase. While examining purchases made out of petty cash, we became aware of a transaction in which a former fund custodian purchased some printer cartridges for personal use with petty cash funds. The inappropriate purchase was not immediately detected because the custodian used a signature stamp of the former Chief Deputy’s name to indicate approval of the voucher for that purchase. The subsequent fund custodian identified the inappropriate purchase after the former custodian was no longer employed in the Surveyor’s Office and the amount of the purchase was paid back into the petty cash fund.

The use of a stamp replica of a signature for approval purposes circumvents an important internal control by allowing the custodian the opportunity to make purchases, possibly for personal use, such as the one described above, without receiving actual supervisory approval. Furthermore, the stamp could also be used to approve the associated reimbursement request, thereby allowing the custodian to make purchases and receive reimbursement for them without anyone else’s knowledge.

ACTION TAKEN:

Prior to our audit, Surveyor’s Office management took possession of the stamp and do not allow its use for the approval of petty cash vouchers or reimbursement requests.

Three recent purchases were made for items that are prohibited by County policy from being purchased using petty cash. We examined the documentation related to the petty cash purchases listed on the most recent reimbursement request to determine if the purchases appeared appropriate. We found two purchases from December 1997, one for a Christmas tree for the office and another for a bag of ice, that were made for the purpose of celebrating Christmas. These purchases are inappropriate according to Countywide Policy #1203, Petty Cash and other Imprest Accounts. Section 6.4 of the policy specifically prohibits the purchase of items from petty cash that are to be used, “primarily to celebrate festive occasions, such as holidays.”

Another issuance of petty cash in December was for the reimbursement of money spent by the Office Administrator for the purchase of gas for a trip he took to St. George to attend the “Utah Council of Land Surveyor’s Board Meeting”. The use of petty cash for this purpose is also specifically prohibited by the policy which, in section 6.2, includes in the disallowed transactions, “items ... where separate Commission approval is required, such as the Travel Policy #1019, or the Mileage Allowance Policy #1023”.

Management was unaware of the specific requirements of this policy at the time the transactions occurred. When these transactions came to our attention, the petty cash fund custodian was preparing the reimbursement request, but had not yet submitted it to the Accounting and Operations Division of the Auditor’s Office. In discussing these transactions with management, we suggested that they remove them from the reimbursement request and reimburse the fund for the cost of the transactions.

ACTION TAKEN:

1. The inappropriate transactions were removed from the reimbursement request before it was submitted and the cost of the purchases were reimbursed into the petty cash fund.
2. Surveyor’s office management submitted a letter to the Commission requesting reimbursement for the out-of-pocket travel expenses incurred by the Office Administrator.

RECOMMENDATION:

We recommend that petty cash not be used for these or any other type of purchases that are not allowed by Countywide Policy #1203.

The Surveyor’s Office has not budgeted enough for the replenishment of petty cash to allow for the proper operation of the fund. While discussing the overall operation of the petty cash fund with the fund custodian, we discovered that the office only budgeted \$800, the same amount as the authorized balance of the account, for the entire year. The fund custodian stated that she was under the impression that the authorized limit of the fund was all they were authorized to budget for and spend

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from petty cash in a single year.

Actually, the authorized balance, known as the imprest amount, is the maximum amount of cash that can be in the fund custodian's possession at any one point in time. When purchases

are made that reduce the cash on hand in the account, a reimbursement is requested that will bring the fund back to its imprest amount. These reimbursements may be made as many times a year as is necessary and could easily total more than the imprest amount. For example, several other elected officials' offices budgeted, on average, almost four times their imprest amounts for petty cash replenishment in 1998.

Budgeting for and operating the fund in this manner facilitates the proper use of a petty cash account which, according to Countywide policy #1203, is, "to allow county organizations to purchase small, miscellaneous items which are of such a nature...that the use of a normal purchase order is deemed not to be cost effective." Most purchases of less than \$100.00 (the petty cash limit) should be made using petty cash. Consequently, budgeting for only the imprest amount, as the Surveyor's Office has done, will likely result in running out of budgeted funds before the year ends, forcing the use of purchase orders to purchase items that cost less than \$100.00.

RECOMMENDATION:

We recommend that the Surveyor's Office estimate the amount of money they need to properly make purchases out of petty cash for the entire year and then request an adjustment to their budget for petty cash replenishment to reflect the amount needed.

FIXED AND CONTROLLED ASSETS

The recent increase in the capitalization rate from \$700 to \$3,000 will place added responsibility on County organizations' to properly account for their controlled assets. Accordingly, we have placed increased emphasis on controls related to these assets during our audit of the Surveyor's Office. Our findings in this area are:

C A T2 Theodolite is missing.

C Controlled assets are not being accounted for on "Controlled Asset Inventory Forms".

A T2 Theodolite is missing. We performed an inventory of randomly selected fixed and controlled assets and were unable to locate one fixed asset, a T2 Theodolite. According to LGFS records, this asset was purchased through a Surveyor's Office purchase order in 1981 for \$6,073 and was last certified as being in the Surveyor's Office in 1996. Surveyor's personnel are continuing their attempts to locate this asset.

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If all attempts to find the asset fail, the office will need to submit a completed PM-2 form to the Commission, through the Auditor's Office and Contracts and Procurement, as required by Countywide Policy #1100, Surplus Property Disposition/Transfer/Internal Sale. Section 8.3.2 of Vaughn E. Butler,

this policy requires that, "a description of the circumstances explaining why the personal property is to be written off, and a description of the steps taken to locate the missing property", accompany the PM-2. In addition, if theft is suspected the reporting procedures outlined in Countywide Policy #1304, Discovery and Reporting of Thefts should be followed.

RECOMMENDATION:

If Surveyor's Office personnel are unable to locate the missing theodolite, we recommend that the Countywide policies for disposition and reporting of missing assets, as described above, be followed.

Controlled assets are not being accounted for on "Controlled Asset Inventory Forms". The Surveyor's Office controlled assets are divided into lists for each employee who has been assigned controlled assets. However, these lists are not on a "Controlled Asset Inventory Form" as required by Countywide Policy #1125, Safeguarding Property/Assets. The advantage of using this form is that it fixes accountability for equipment by requiring the individual to sign a statement indicating their acceptance of responsibility for the items they have been assigned.

RECOMMENDATION:

We recommend that all controlled assets be listed on a "Controlled Asset Inventory Form" and that each person assigned controlled assets sign the certification statement at the bottom of the form to acknowledge responsibility for the assets.

MONUMENT PRESERVATION PERMITS

While conducting the audit, Surveyor's Office personnel asked us to advise them on a issue related to the collection and possible refund of money paid to them by contractors that are working in the vicinity of Public Survey Monuments. After reviewing the situation, we suggest that all money for Monument Preservation Permits be collected at the time the permit is filed and a special refund account be established to process refunds if such become necessary.

Contractors working on a project in the vicinity of any Public Survey Monuments are required to complete a Monument Preservation Permit. This permit serves as notice to the Surveyor's Office that the monument needs to be referenced because it might have to be removed or destroyed during the project. If the monument is removed intact and salvaged by the contractor, the County charges \$50.00 for referencing and re-setting the monument. If the monument is destroyed or damaged beyond repair, the County charges \$200.00 for replacing and re-setting the monument.

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We were asked whether the most efficient way to handle these transactions would be to collect the required \$50.00 up-front and then bill the contractors an extra \$150.00 for monuments that get destroyed, or collect the entire \$200.00 up-front and refund \$150.00 for monuments that are salvaged. The staff expressed a preference for the latter approach, but were concerned about the length of time it would take for contractors to receive their refunds through the normal County refund procedures.

Section 3.15.1.2 of Countywide Policy #1062 provides for the establishment of a Special Refund Account for these purposes. A custodian is established for the account and it is regulated in accordance with established procedures for Imprest Funds. Establishing such an account will allow you to provide refunds to contractors in a timely manner. Also, collecting all the money up-front will allow your office to avoid having to develop a receivables system.

RECOMMENDATIONS:

1. We recommend that all money for Monument Preservation Permits be collected at the time the permit is filed.
2. We recommend that the Surveyor's Office establish a special refund account (imprest account) to process Monument Preservation refunds.

In closing, I would like to express appreciation to you and your staff for the cooperation and timely assistance you gave to our auditors. I trust that our work will be of benefit to you as you endeavor to make changes that will strengthen internal controls in your office. If we can be of further assistance to you in this regard please give me a call.

Sincerely,

David L. Beck
Chief Deputy

Enclosures 2

Date _____

No-charge review form

Name of person or entity _____

Item received _____

Quantity _____

Purpose _____

Amount _____

Signature of person receiving the item(s)

Reviewed by

Date_____

No-charge review form

Name of person or entity_____

Item received _____

Quantity_____

Purpose_____

Amount_____

Signature of person receiving the item(s)

Reviewed by

County organization No-charge log

<u>Date</u>	<u>Organization</u>	<u>Item</u>	<u>Quantity</u>	<u>\$ amount</u>	Organization Representative's <u>Signature</u> _____
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