

Salt Lake County Auditor's Office

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Steve Jackson, Director
Extension Service of Utah State University
2001 S. State Street, Suite S1200
Salt Lake City, UT 84190-2350

Dear Steve:

We recently completed an unannounced count of petty cash and change funds at USU Extension Services. We also conducted a review of cash receipting and depositing, fixed and controlled assets, and inventory tracking.

USU Extension Services management reported to the Audit Division a problem with missing funds. We interviewed the cashier who was suspected of mishandling funds. The cashier did not admit to committing fraud against the agency when we discussed the problem of missing funds from deposits.

In our recommendations we suggest USU Extension Services use Salt Lake County policies as a basis for internal controls. These internal controls are basic controls that are practical to use in any government agency. We also believe that these internal control policies should be followed since several of the employees at USU Extension are Salt Lake County employees.

CASH RECEIPTING AND DEPOSITING

During our review of the cash receipting and depositing process, we found several items that should be improved.

- **USU Extension Services has recorded shortages in excess of \$200.**
- **Some USU Extension deposits were not made in a timely manner.**
- **The cash/check composition on the deposit slip consistently does not match the cash/check composition on the cash register z-tape.**
- **A cash register malfunction prevents a receipt from being issued.**
- **Some refunds and voids are not properly documented and the proper approval is not obtained.**
- **Adequate check guarantee procedure is not used when accepting personal checks.**

- **Checks are not always restrictively endorsed upon receipt.**

USU Extension Services has recorded shortages in excess of \$200. The USU Extension Office fiscal manager pointed out two days during 2000 in which significant cash shortages occurred. For the deposit on September 28, 2000, a cash shortage of \$204.96 occurred. For the deposit on October 06, 2000, a shortage of \$125 occurred. He suspects that the cause of these shortages is due to the cashier mishandling funds.

Office procedure is to issue a three-part, hand-written receipt on all revenue generated except publication sales. Normally, the white copy of the receipt is given to the customer, the yellow copy is kept by the cashier, and the pink copy is kept by the secretary. On these two deposits, the secretary had the pink copy of the receipt and the cashier could not locate the yellow copy of the receipt for some of the transactions.

The fiscal manager has also noted some recent instances in which shortages occurred. On April 30, 2001, \$4.05 was missing. Another documented instance of missing funds occurred on June 29, 2001 in which \$3.00 was missing. In addition, we examined a sample of 24 deposits. Of the 24 deposits, 12 deposits had shortages that ranged from \$0.10 to \$43.51.

USU Extension Services uses an in-house generated cash balance sheet. Overages/shortages are documented on this form. However, a cash over/short log is not used. Countywide Policy # 1062, Management of Public Funds, section 2.5.3 states, "All overages and shortages, regardless of the amount, must be recorded and reported daily by the agency on MPF Form 10, cash over/short log. When a significant shortage or a pattern of shortages occurs in the accounts of any cashier, the agency shall conduct an investigation of the circumstances and report its findings to the Auditor."

As a result of a cash over/short log not being maintained, it is difficult to evaluate the extent of the cash shortage problem without examining each cash balance sheet. In addition, we also found that cash receipt records were difficult to follow. If a cash over/short log is maintained and the cashier and supervisor both sign that the log is accurate, over/shorts will be accurately documented.

RECOMMENDATIONS:

1. ***We recommend that the daily over/short amount be documented on a monthly log.***
2. ***We recommend that the cashier and supervisor both sign the over/short log to indicate propriety.***
3. ***We recommend that the daily cash receipt records be more orderly to reflect both receipt and deposit amounts.***

Some USU Extension deposits were not made in a timely manner. USU Extension Services receives money from publications sales, class fees, and 4-H transactions. In our review of cash receipting and depositing, we found USU Extension Services deposits funds every Friday unless \$200 or more is collected in cash. If more than \$200 is collected in cash a deposit is made the next day. During our review we found cash collected on one particular day was held for 29 days before being deposited. We also found several instances in which cash collections were held at least 12 days before being deposited.

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 not

later than three days after receipt." Funds that are not deposited on the day they are collected are more susceptible to conversion to personal use.

RECOMMENDATION:

We recommend that a deposit be made daily when practicable but not later than three days after receipt.

The cash/check composition on the deposit slip consistently does not match the cash/check composition on cash register z-tape. USU Extension Services cash register z-tape shows the cash/check composition for daily transactions. Quite often, the cash/check composition on the deposit slip does not match the cash register cash/check composition. A possible cause for the composition not matching is an error in entering in the type of payment and the mistake not being caught until the reports have been printed.

Countywide Policy # 1062, Management of Public Funds, section 3.7.3.1 states, "each day, all county agencies should balance collections to register (or receipt log) totals and prepare a deposit. Total cash and checks received (as recorded on receipts or cash register tapes should equal total cash and checks deposited.)" If cash/check composition is not closely monitored, USU Extension Services could be susceptible to lapping schemes. Also, the cashier could cash employee checks without the risk of being discovered.

RECOMMENDATIONS:

1. ***We recommend that the cashier enter the correct payment that is tendered for each transaction.***
2. ***We recommend that the individual verifying the deposit monitor cash/check composition and ensure that frequent differences between the z-tape and deposit slip be brought to the attention of the cashier for corrective action.***

A cash register malfunction prevents a receipt from being issued. Currently, the cash register at USU Extension Services does not print a receipt to give to the customer. When a customer purchases a publication from the front-desk area, a receipt is not given unless the customer asks for one. When the customer asks for a receipt, a hand-written receipt is given for the total amount of the purchase. If funds are received for a 4-H transaction or a fee class, a hand-written receipt is issued. As mentioned before, the hand-written receipt is three-part and not pre-numbered.

Countywide Policy # 1062, Management of Public Funds, section 3.5.1 states, "The Agency Cashier will prepare a receipt for all remittances received. The original receipt will be given to the person tendering payment." In addition, section 3.5.2 states, "The receipt forms will be used in numerical order. Unless specifically provided, no remittance will be receipted in a manner other than by issuance of the prescribed form of pre-numbered receipt. Each receipt will be completed to show all information required on the form."

USU Extension management stated keeping track of numbered receipts would be a tedious task because cash is collected off-site at the County Fair and various classes. However, not issuing pre-numbered receipts reduces internal controls. Funds may be collected from a customer and the customer issued a receipt. Since the non-numbered receipts are not tracked, the duplicate copy of the receipt may be destroyed and the funds from the transaction improperly used.

RECOMMENDATIONS:

1. ***We recommend that USU Extension Services obtain a cash register that will print a receipt to give to the customer for all transactions.***
2. ***We recommend that USU Extension Services use pre-numbered receipts for off-site transactions in which a cash register receipt cannot be issued.***

Some refunds and voids are not properly documented and the proper approval is not obtained. In the sample of cash receipts that we examined, we found two instances in which refunds were recorded on the z-tape and the proper documentation was not included to explain the transaction or indicate approval. USU Extension office practice requires that when a refund is issued that a hand-written receipt be issued to the customer. The customer signs the receipt along with the cashier. A supervisor also approves the transaction. If this office policy for refunds is not being followed, funds could be subject to misuse, especially if a refund transaction is not actually taking place.

We also found several instances in which the explanation for a void was omitted. Since a duplicate receipt does not print from the cash register, a receipt is not available at the time of the transaction to document the void. By the end of the day the cashier does not always remember to explain the void on the z-tape and obtain the proper signatures. Countywide Policy # 1062, Management of Public Funds, section 3.5.2.2 states, ". . .The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void. . ." If voids are not properly documented and approved, funds could be subject to misuse. Supervisor approval is necessary to prevent conversion of collected fees to personal use.

RECOMMENDATIONS:

1. ***We recommend that USU Extension cashier's follow office policy for all refund transactions.***
2. ***We recommend that voids be properly documented at the time of the transaction and that the cashier and supervisor sign the documentation.***

Adequate check guarantee procedure is not used when accepting personal checks. The cashier at USU Extension Services does not ask for a valid form of identification when receiving personal checks. Countywide Policy #1301, Acceptance of Checks, section 2.0 states, ". . .(checks) not received through the mail, be in the form of (a) personal check accompanied by a valid form of identification." The following forms of identification are acceptable with a current expiration date: driver's license, Utah identification card, or check guarantee card. These forms are necessary for cases when a check is returned for insufficient funds. The individual can then be tracked through the form of identification and funds may still be collectible.

RECOMMENDATION:

We recommend that cashiers ask for a form of identification when personal checks are accepted from customers.

Checks are not always restrictively endorsed upon receipt. When we performed the unannounced cash count the checks in the cash register drawer were not restrictively endorsed. The cashier stated that she usually restrictively endorsed the checks upon receipt. Countywide Policy # 1062, Management of Public Funds, section 3.6.1, states, "All checks and other negotiable instruments received

by the Agency Cashier should be restrictively endorsed immediately upon receipt using the agency's approved endorsement stamp."

RECOMMENDATION:

We recommend that the cashier restrictively endorse checks upon receipt.

FIXED AND CONTROLLED ASSETS

During our review of fixed and controlled assets we found several items that should be improved.

- **An annual inventory of controlled assets is not performed as required by countywide policy.**
- **USU Extension Services lists numerous controlled assets that should be removed from the inventory list.**

An inventory of controlled assets is not performed on an annual basis as required by countywide policy. The last physical inventory of controlled assets was performed approximately three years ago. Countywide policy #1125, Safeguarding Property/Assets, section 2.2.11 states, "at least annually, conduct a physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."

During the performance of an annual inventory the property manager should locate and identify each asset listed on their inventory lists. Description, location, I.D. number, and the responsible person of each asset should be recorded on the inventory list. As assets are identified accountability of these assets is established. Although the ultimate responsibility for assets rests with property managers, employees of an organization must take care of and keep track of all assets they exercise control over. When members of an organization know that all assets, both fixed and controlled, are being tracked the likelihood of theft, loss, or damage is decreased.

RECOMMENDATION:

We recommend that USU Extension Services perform a physical inventory of fixed and controlled assets on an annual basis.

USU Extension Services lists numerous controlled assets that should be removed from the inventory list. There are 13 assets recorded on USU's controlled asset inventory list that should be removed. USU Extension Services no longer maintains control over the following assets: dicatphone, Thermo fax 3M, IBM typewriter, Kroy lettering machine, Sony transcriber, monitor to XT computer, Roko personal computer, Everex w/84 MG hd, graphic card, Hewlett-Packard III printer, Sharp copy machine 2/20 bin sorter, Canon B 140 fax machine, PC w/16m RAM, 850m hd, CD-ROM, Princeton monitor.

According to Extension Services these items had been sent to surplus; however, they remain on the controlled asset inventory list. All documentation verifying the transfer of the asset to surplus was found and examined to ensure the transaction, in fact, had occurred. All assets the organization no longer maintains operational control over should be removed from the inventory list.

Also, there are two county-owned assets and two USU-owned assets that could not be located.

All four assets were believed to have been surplused although no documentation could be found to verify that they were. Both County assets should be removed from the inventory list and efforts should be made to locate the PM-2 to verify the transfer.

RECOMMENDATIONS:

1. ***We recommend that all surplused items be removed from the controlled asset inventory list.***
2. ***We recommend that efforts be made to locate PM-2s to ensure that assets were, in fact, transferred to surplus.***

PUBLICATION INVENTORY

During our review of the publication inventory we found the following issue that should be improved.

- **USU Extension Services' publication inventory is not current.**

USU Extension Services' publication inventory is not current. A manual system is used to track the publication inventory. Publications can be added to the inventory by simply Xeroxing from an original. The new copies are not always added to the inventory list. This makes the inventory difficult to reconcile when it is occasionally counted.

USU Extension Services does not have an official written policy on how to manage their publication inventory. An inefficient tracking system for the publication inventory can lead to a misstated inventory. Lack of controls over the publication inventory could increase susceptibility to misuse.

RECOMMENDATIONS:

1. ***We recommend that USU Extension Services write a publication inventory policy.***
2. ***We recommend that the publication inventory be updated on a more frequent basis.***
3. ***We recommend that USU perform a cost analysis to determine if a computerized inventory system is feasible. (See Attachment A for a list of POS software and scanners.)***

We express appreciation to the staff at USU Extension Services for the cooperation and assistance they gave to us in performing the audit. We are confident that our work will be of benefit to you and help you to strengthen internal controls. If we can be of further assistance to you in this regard, please contact us.

Sincerely,

James B. Wightman, CPA
Director, Audit Division

cc: Michael Gallegos