



## **SALT LAKE COUNTY AUDITOR'S OFFICE**

**JEFF HATCH**  
*Auditor*

November 4, 2008

Gary Edwards, M.S., Director  
Salt Lake Valley Health Department  
2001 South State Street, #S2500  
Salt Lake City, UT 84190

Re: Audit of Ellis R. Shipp Public Health Center

Dear Gary:

We recently completed a limited scope audit of the Ellis R. Shipp Public Health Center (Health Center). The audit's primary focus was the period from July 1, 2007 to June 30, 2008. During our examination, we reviewed cash receipting and depositing, capital and controlled assets, and Petty Cash and Change Funds.

For each of these areas, we examined internal controls and procedures in place to determine compliance with Countywide policies and Salt Lake Valley Health Department (SLVHD) cash handling standards pertaining to the areas of our examination. Our work at the Health Center was designed to provide reasonable, but not absolute, assurance that the system of internal controls was adequate, records were current, and daily transactions were valid. During our review, we noted some cash handling procedures which could be improved. In addition, some improvements regarding management of controlled assets are recommended.

### **CASH HANDLING AND DEPOSITING**

Our audit included examining cash handling procedures to determine whether Countywide Policy #1062, "Management of Public Funds," was applied. We counted all funds on the premises, including cash receipts not yet deposited, the change fund, and the Petty Cash Fund. Collections balanced to the Cash Drawer Balance Listings and the Vital Records Clerk Report. Petty Cash and Change Funds balanced to their authorized limits, as recorded on the Salt Lake County Petty Cash and Other Imprest Accounts Report. We also reviewed a sample of deposits and reconciled these deposits to bank statements on file.

To review the cash handling and depositing, we selected a statistical sample of deposits between July 1, 2007 and June 30, 2008. We discovered the following during our examination for which we have made recommendations.

- ***Cashier signatures on Monthly Over/Short Logs were missing, signed in proxy by a supervisor, or did not match the employee's name.***
- ***Fund Transfer Receipts were not always used properly.***
- ***Voided transactions were not always documented and reviewed properly***
- ***An independent review and cross check of cash depositing with the source documents was not always accomplished.***
- ***The Petty Cash Fund was too large for its actual level of utilization.***
- ***The Petty Cash Fund balance was not current in the Imprest checking account register.***

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**Cashier signatures on Monthly Over/Short Logs were missing, signed in proxy by a supervisor, or did not match the employee's name.** During our review of the Health Center's Monthly Over/Short Logs from July 1, 2007 to June 30, 2008, we found several issues concerning the proper use of the logs. On one cashier's Over/Short log, both the cashier's signature and the supervisor's signature were missing. Of the cashier Over/Short logs reviewed, six had a different employee's signature than the name of the employee recorded on the log. We also found five cashier Over/Short logs where the supervisor had signed in proxy for the cashier on the cashier's signature line.

Proper completion of the Monthly Cash/Over Short Log is an internal control procedure that provides reasonable assurance that a cashier's overages and shortages are acknowledged, documented, and reviewed by both the cashier and a supervisor. Without proper review, evidenced by signatures on the log, information could be falsified, or an error or omission could go undetected. Countywide policies, as well as SLVHD cash handling standards, require the proper use and review of Monthly Over/Short Logs for each cashier that handles cash collections.

Countywide Policy #1062, Section 5.2, states that overages and shortages:

*"...will be reported on the MPF Form 3 Daily Cash Balance and MPF Form 10 Cash Over/Short Log. MPF Form 10 must be maintained and a copy signed by the immediate supervisor shall be attached to the Monthly Report of Cash Receipts that is sent to the Auditor's Office. A copy of MPF Form 10 and the Monthly Report of Cash Receipts shall be retained by the Agency."*

SLVHD Cash Handling (Fiscal) Operating Standards 2006, Section 11.3, "Monthly Over/Short Log Instructions," states that:

*"...every employee collecting cash must complete his or her own individual [Over/Short] form."*

This form is to include the cashier's name and signature, and the signature of the supervisor/agent cashier who reviewed the log.

During our discussions with the Health Center's office manager, she acknowledged that due to the Health Department's month-end time constraints and staffing issues, she had signed Monthly Over/Short Logs in proxy for cashiers on several occasions. She mentioned that it was a normal practice that occurred whenever a cashier was not scheduled to work, was on vacation, or otherwise not present to sign the log at the end of the month. In the cases where the logs were signed by an employee other than the cashier identified on the log, she said that this was caused by a temporary employee working for a regular employee on just a few days during the month and was not present at the end of the month to sign the log.

If the cashier is not present at the month-end closing, a copy of that cashier's log should be reviewed and signed by a supervisor and submitted with the normal month-end reports. When the employee returns, the log should be reviewed and signed by the employee and a copy of the signed log should be retained in the Health Center's records.

Although daily overages or shortages are recorded on cashier's Fund Transfer Receipts, the additional tool of using the Monthly Over/Short Log is an excellent system of dual internal controls. If both forms are in agreement and properly reviewed and signed by the cashier and a supervisor, then the risk of an error or omission is significantly reduced. Having cashiers review and sign their Monthly Over/Short Log form provides them with documented assurance that the log has not been falsified or that errors or omissions have occurred without their knowledge.

**RECOMMENDATION:**

***All Monthly Over/Short Logs should be properly reviewed and signed by both the cashier and a supervisor.***

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**Fund Transfer Receipts were not always used properly.** An MPF Form 7A, Fund Transfer Receipt, should be used whenever funds are transferred from one Health Center cashier to another. A transfer of funds is necessary for daily cashiering duties as well as preparing the deposit at the end of the day. When the daily deposit is prepared, each Health Center cashier that performed cashiering duties during the day is required to balance his or her collections to the Cash Drawer Balance Listing that is generated for each cashier.

The cashier gives the collections and the Fund Transfer Receipt to the agent cashier who prepares the deposit. The agent cashier verifies that the total collections balance to the amount stated on the Fund Transfer Receipt and signs the form indicating receipt of the funds. One copy of the MPF Form 7A is retained with the daily deposit paperwork and one copy is given to the cashier for his or her records. Proper documentation of the transfer of funds between Health Center cashiers is necessary

because the transfer forms track the chain of responsibility for those funds from initial collection through the deposit preparation process.

During our review of 67 random deposit dates from July 1, 2007 to June 30, 2008, we examined the Fund Transfer Receipts that were retained with the deposit paperwork and found numerous occasions where the receipts had not been properly signed. We found Fund Transfer Receipts that were signed by the cashier on the line reserved for the person receiving the funds and forms that were signed by a cashier who was not the employee that prepared the daily deposit. In these cases, there was no evidence that the agent cashier who prepared the daily deposit verified that the transferred money was accurate as stated on the Fund Transfer Receipt.

Countywide Policy #1062, Section 2.6.1, describes the use of the MPF Form 7A when transferring funds from the agent cashier or designee to another cashier. In addition, SLVHD Cash Handling (Fiscal) Operating Standards 2006, Section 4.1, Cashier's Responsibilities, and Section 4.2, Agent Cashier's Responsibilities, outline the proper use of MPF Form 7A. Section 4.2, states:

*"The agent cashier or designee will make sure that the money balances to the Fund Transfer – MPF-7A, credit card clerk report, and generated cash report. After the agent cashier or designee verifies the fund transfer amount, the employee will then sign the Fund Transfer – MPF-7A form."*

When the MPF Form 7A is not signed by the person preparing the deposit there is no indication that he or she has accepted responsibility for the transferred funds. Over time, without the proper documentation of the chain of responsibility for the funds, the risk of an error or falsification of records increases. Moreover, the cashier with last responsibility for the funds, who did not ensure that the Fund Transfer Receipt was completed at the transfer, would likely be the person most scrutinized if funds were missing from the deposit.

Therefore, it is in the best interest of both the agent cashier and cashier to document a clear chain of responsibility for all fund transfers between employees by properly completing the Fund Transfer Receipt every time funds are transferred.

**RECOMMENDATION:**

***Fund Transfer Receipts should be signed by the person preparing a deposit documenting the acceptance of responsibility for money transferred from each cashier.***

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**Voided transactions were not always documented and reviewed properly.** On the Health Center's computerized receipting system, a cashier is able to correct errors in the amount charged to a client, the type of payment tendered, or the service codes that were recorded for a transaction. The original transaction is cancelled-out and the cashier is able to re-enter the corrected information into the system. When this

occurs, a "RE-ENT" entry appears on the cashier's daily Cash Drawer Balance Listing. A "RE-ENT" transaction essentially allows a cashier to void or cancel-out a prior client transaction and re-enter another transaction using the same document (receipt) number.

During our review of 67 randomly selected deposits, we noted 31 "RE-ENT" transactions. The majority of the "RE-ENT" entries, 18 of 31, were followed by a correcting entry where the payment type and amount did not change from the previous cancelled-out entry. The payment type that was tendered for the transaction was changed on 10 of the "RE-ENT" transactions. The original transactions for 2 of the "RE-ENT" entries were each followed by a correcting entry that increased the amount charged to the client, and 1 of the "RE-ENT" entries was followed by a correcting entry that decreased the amount charged to the client.

The "RE-ENT" transaction that resulted in a decrease was the only one that was documented with a void slip that included an explanation from the cashier, with a review and signature of the immediate supervisor. After finding the Patient Encounter Form (PEF) for the transaction, we noted that the signed void slip was stapled to the back of the PEF in accordance with the Health Center's cashiering practices.

Countywide Policy #1062, 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 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."*

SLVHD Cash Handling (Fiscal) Operating Standards 2006, Section 5.3, "Voids," states:

*"A void slip should be completed when a cash transaction error has occurred. A supervisor or designee signature is required on all voids."*

Voided transactions are a major area of concern with respect to employee theft and mismanagement of funds. Without proper supervisory review of "RE-ENT" transactions, there is no internal control to mitigate the risk of a valid transaction being voided. Void slips alert management to the reversal of cash transactions and help prevent misappropriations of funds.

During an interview with Health Department finance personnel, it was determined that current cashiering practices at the Health Center require a void slip to be completed only if the corrected cash transaction results in a decrease (refund) in the amount charged to the client. In their view, a void slip is not necessary if the "RE-ENT" transaction is followed by a correcting entry that involves any of the following:

- An increase in the amount charged to the client
- A change in payment type tendered
- A correction to a service code

Due to various functions available on the Health Center's computerized receipting system, additional cashier training would be beneficial for employees who are consistently using the "RE-ENT" operation to inquire about client information, or to make corrections to transactions.

Since current cashiering practices at the Health Center do not require that void slips be completed on all "RE-ENT" transactions, there is a risk that cashiers with working knowledge of the system could manipulate transactions to their benefit. Without management oversight of "RE-ENT" transactions, the risk that a fraudulent transaction could occur is increased. Best practices dictate that at a minimum, a supervisor should review each "RE-ENT" transaction to ensure that the transaction was appropriate and that voided transactions are properly documented according to Countywide Policy #1062 and SLVHD Cash Handling (Fiscal) Operating Standards 2006.

**RECOMMENDATION:**

***A supervisor should review all "RE-ENT" transactions on each cashier's daily Cash Drawer Balance Listing. A written explanation should be provided on all voided transactions and both the cashier and a supervisor should sign the void as evidence of review and approval.***

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**An independent review of cash depositing with the source documents was not always accomplished.** Cash depositing procedures at the Health Center require that when the deposit is prepared each day, an independent person verifies the deposit amount. The following day, a third party verifies that the deposit amount matches the daily reports. Signatures are required on the Daily Cash Balance worksheet from the person who prepares the deposit, the person who verifies the deposit, and the person that verifies the reports. This is a good mitigating internal control procedure since there is an independent review of both the deposit amount and the daily reports.

Due to a small office staff at the Health Center, we found that cashiers who were involved with collecting and receipting funds during the day were also involved with preparing and verifying the daily deposit. Having the same cashier who is involved with collecting and receipting funds also prepare the daily deposit weakens internal controls. This procedure allows a single employee to have control of the funds from collection to deposit.

To compensate for this internal control weakness, an independent third person should reconcile that day's deposit amount to the daily reports. However, in our review of 67 deposit dates, there were 8 days when the person who prepared the deposit was the same person who verified the reports. In each of these cases, an independent review of cash depositing with the daily reports was not accomplished.

The introduction to Countywide Policy #1062, states:

*"The policy provides suggested internal controls for the segregation of duties in such a way that persons who are responsible for the custody of funds and performance of cashiering duties have no part in the keeping of, nor access, to those records which establish accounting control over the funds and operations (and vice versa). The duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities and falsification of accounts. Established internal controls work to provide reasonable assurance that daily transactions are executed in accordance with prescribed managerial policies and that errors and omissions are detected."*

During an interview with Health Department finance personnel, we discovered that there are times when the Health Center is extremely busy, or lacks the number of staff members necessary to have proper separation of duties. However, the Health Center staff should make every effort to adhere to proper internal control procedures whenever possible, by having an independent person verify the deposit with the daily reports.

**RECOMMENDATION:**

***Whenever possible, there should be an independent review of the deposit with the daily reports. This independent review should be documented with the signature of the person performing the review.***

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**The Petty Cash Fund was too large for its actual level of utilization.** In addition to an unannounced cash count, we reviewed Petty Cash disbursements and found that they were appropriate and within the amount allowed by Countywide Policy #1203, "Petty Cash and Other Imprest Funds." Taking into account the cash on hand, Petty Cash vouchers, and the Imprest checking account register balance, we found that the Petty Cash Fund balanced to its authorized amount. In addition, proper documentation for each purchase was included with the vouchers.

The Health Center replenished their Petty Cash account only once for 2006 expenditures and once for 2007 expenditures. Replenishment requests for the fund, which currently has an authorized amount of \$500, were \$36.38 in January 2007 and \$42.00 in February 2008.

Countywide Policy #1203, Section 3.7, states,

*"The amount requested shall provide adequate operating funds for approximately three months."*

Because of the underutilization, a portion of the fund should be returned to the Auditor's Office, to allow for the earning of interest, or appropriation to other areas of need. Sound cash management practices require that funds be

used with specific purposes in mind instead of remaining idle in Petty Cash accounts.

**RECOMMENDATION:**

***The Petty Cash Fund amount should be reduced to a level more appropriate to the needs of the Health Center.***

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**The Petty Cash Fund balance was not current in the Imprest checking account register.** During our review of the Petty Cash Fund control listing and Imprest checking account register, we found that the running balance of the fund was not current in the account's check register. Check #1236 had been written out of sequence due to an oversight of the Petty Cash Fund Custodian, and Check #1214, written on July 7, 2008, had not been entered into the check register. The running balance had not been totaled since Check #1236 was written on April 10, 2008. However, once this information was entered into the check register, the Petty Cash Fund balanced to its authorized amount.

The practice of not keeping a current running balance in the Petty Cash Fund check register could lead to errors or omissions that directly affect the fund balance. It could also lead to a situation in which the custodian has written a check with insufficient funds in the account. Individual checks could be stolen and forged if the checks are not written in sequential order and the custodian is unaware that certain checks are not accounted for.

**RECOMMENDATION:**

***The Petty Cash Fund Custodian should keep the Petty Cash Fund Imprest checking account register current and use checks in sequential order.***

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**CAPITAL AND CONTROLLED ASSETS**

A capital asset is an individual item owned by the County meeting the criteria for capitalization. Currently, the capitalization threshold is \$5,000. A controlled asset is an item having a cost of \$100 or greater, but less than the current capitalization threshold amount, and which is sensitive to conversion to personal use. Personal communication equipment is considered a controlled asset regardless of the cost of the individual item.

We examined a statistical sample of capital and controlled assets to determine their existence and location, and to determine if the Health Center complies with Countywide Policy #1125, "Safeguarding of Property/Assets."

All items in our sample for both capital and controlled assets were located. However, we discovered the following during our examination:

- ***Two digital cameras were kept in an unsecure location.***
- ***Controlled assets had been moved from their locations within the Health Center without updating the Health Asset Tracking System records.***
- ***Two pieces of computer equipment had been transferred to another public Health Center location without proper documentation.***
- ***Controlled assets were missing asset identification tags or had a tag, but were not on the Health Center's controlled asset list.***

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**Two digital cameras were kept in an unsecure location.** Our review of capital and controlled assets included an examination of a sample of randomly selected SLVHD Employee Controlled Asset Inventory Forms for seven Health Center employees. From the items on the forms, we verified the identification and location of each asset that was assigned to the employees. We found that two digital cameras and accessories that were assigned to the office manager were kept in an unlocked file drawer in her office.

Small controlled assets, such as digital cameras, are easily misappropriated and converted to personal use. If left unattended or in an unsecure location, these items could easily be taken by an employee or a patron without the office manager's knowledge.

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.12, states:

*"To ensure adequate accountability, Property Managers should establish internal protective controls appropriate for custody of the property assigned."*

Internal protective controls should include providing "locking equipment storage areas," for small controlled assets such as the digital cameras.

**RECOMMENDATION:**

***When not in use, small controlled assets should be kept in a secure location, such as a locked drawer or cabinet.***

**ACTION TAKEN:**

***As a result of this finding, the digital cameras were moved to a secure locking cabinet.***

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**Controlled assets had been moved from their locations within the Health Center without updating the Health Asset Tracking System records.** The Health

Department has implemented a computerized database system that accounts for all capital and controlled assets called the Health Asset Tracking System (HATS). The HATS uses a bar-coded asset identification tag to track asset information and location. During a review of a random sample of 52 assets taken from the HATS inventory list for the Health Center, we found that four controlled assets from the sample had been moved from their stated locations without updating the HATS. These assets were eventually found and accounted for at other locations within the Health Center.

Countywide Policy #1125, Section 2.2.3, states that the Property Manager should:

*"Maintain records as to current physical location of all fixed [capital] assets and controlled assets within the organization's operational and/or physical custody."*

Countywide Policy #1125, Section 4.3.6, states:

*"Property Managers should use exact locations [of assets] whenever possible (and update them as needed) to establish better control."*

Although the Health Department has one main Property Manager, the office manager at the Health Center has been designated as the controlled assets coordinator and assigned the duties of maintaining records of the capital and controlled assets located at that center. Keeping accurate asset location records and periodically verifying these records is an internal control procedure designed to reduce the risks of a capital or controlled asset being lost, stolen, or converted to personal use. When the controlled assets coordinator does not update asset inventory forms, or an employee does not notify the controlled assets coordinator of asset location changes, these risks are increased. The data in HATS should be updated in a timely manner for changes in asset information or location to enable the Health Center's asset records to be kept current.

#### **RECOMMENDATION:**

***To ensure that the new information is entered into the HATS in a timely manner, employees should be made aware that it is their responsibility to notify the controlled assets coordinator of the change when a capital or controlled asset is moved to a new location within the Health Center. The controlled assets coordinator should update any changes in asset information or location in the HATS as needed.***

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**Two pieces of computer equipment had been transferred to another public Health Center location without proper documentation.** During our examination of the SLVHD Employee Controlled Asset Inventory Forms, we found on two separate employee forms that computer equipment which was assigned to the employees had been replaced by another similar asset. One employee's Controlled Asset Inventory Form listed a computer, which had been replaced by another computer. On the second

employee's Controlled Asset Inventory Form, we found that a computer monitor had been replaced by another computer monitor. These assets are detailed as follows:

Description	Old Asset Number	New Asset Number
Dell Computer	№ 1599	№ 4752
Dell Computer Monitor	№ 6026	№ 4764

When we inquired where the items that had been replaced were located, we found that the Health Department's IT manager had transferred the computer equipment to another public health center without updating the Health Center's records and without notifying the controlled assets coordinator of the transfer. The IT Manager was able to provide evidence that the two pieces of computer equipment were accounted for at the other health center by doing a general search for the items in the Health Department's Health Asset Tracking System database.

Countywide Policy #1125, Section 4.3.6, states:

*"Although it may be impractical to define exact locations on the forms in circumstances where property is used by more than one employee, or where it is frequently moved or reassigned, Property Managers should use exact locations whenever possible (and update them as needed) to established better control."*

Items such as computer equipment are highly susceptible to theft and/or conversion to personal use. If the records are not updated to document an interagency transfer or exchange of assets, the risk that assets will be lost, stolen, or converted to personal use increases. The Health Department's IT manager should make sure that the controlled assets coordinator is aware of any transfers, exchanges, acquisitions, or disposals of any computer equipment or peripheral devices at the Health Center so that the Health Asset Tracking System records can be updated in a timely manner to reflect the changes.

#### **RECOMMENDATIONS:**

***The Health Department's IT manager should notify the controlled assets coordinator whenever a transfer, exchange, acquisition, or disposal of any computer equipment or peripheral device is made, to ensure that accurate asset records are maintained.***

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**Controlled assets were missing asset identification tags or had a tag, but were not on the Health Center's controlled asset list.** The Health Center shares space with two other organizations. The University of Utah Medical Center operates a satellite women's health clinic, and the State of Utah operates a Women, Infants, and Children (WIC) program clinic on the premises. These organizations are independent from the Health Center's operations, but due to the limited amount of space available, some Health Department assets are commingled with the assets of the other two

entities. During our review of controlled assets from the HATS inventory list for the Health Center, we noticed several assets that were missing any type of identification tag.

During our review of controlled assets, we noted the following assets which did not have an identification tag:

- Four Dell Computers
- HP LaserJet 5N Printer
- Okidata Microline 590 Dot-Matrix Printer
- Panasonic TV/VCR

We also found one controlled asset, a Haier Mini-Refrigerator, located in the midwives' lab that had an identification tag on it, but could not be found on the Health Center's HATS inventory list.

Because the Health Center shares space with two other organizations that have their own independent asset tracking systems, an asset which is not tagged creates ambiguity about which organization actually owns that asset. This situation creates an opportunity for possible misappropriation or conversion of an asset by one of the other organizations.

**RECOMMENDATION:**

***All controlled assets located at the Health Center should have the proper identification tag of the organization that owns the asset. The controlled assets coordinator should work with the other organizations to ensure that each asset is properly identified and documented on the appropriate asset inventory listing.***

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In closing, we express appreciation to the staff at the Ellis R. Shipp Public Health Center for the cooperation and assistance they gave us during our audit. Implementation of the recommendations in this letter will help to improve operations, ensure the security of County assets, and strengthen internal controls throughout the Health Center. We trust that our work will be of benefit to your staff. If we can be of further assistance to you in this regard, please contact us.

Sincerely,

James B. Wightman, CPA  
Director, Internal Audit Division

cc: Doug Peterson  
Tara Parke