



May 17, 2012

Mr. Gary Edwards, Director
Salt Lake Valley Health Department
2001 South State Street, #S2500
Salt Lake City, UT 84114-4575

Re: An Audit of the Salt Lake Valley Health Department (SLVHD) Imprest Refund Account

Dear Gary:

We recently completed an analysis of the financial records of the SLVHD Government Center – Refunds Imprest Account. Our scope was limited to verification of the accuracy and completeness of financial records, and compliance with internal controls related to asset controls, cash handling, capital and controlled assets, merchandise inventory, and concessions. Our audit covered the 2-year period between April 2010 and March 2012.

Our objectives were to determine whether:

- Refunds issued were handled according to Countywide Policy #1203, *Petty Cash and Other Imprest Funds*
- Best business practices were followed
- Controls were in place to prevent misappropriation or theft of funds

Our work was designed to provide reasonable but not absolute assurance that the systems of internal control were adequate, records were current, and daily transactions valid. Since our audit included only a sample of many items from the period, there is a risk that we may not have discovered misuse or theft of County assets because these may have occurred with respect to assets or transactions not selected for review.

The imprest checking account was created to provide refunds due to patients and customers of both the health department and environmental health. Refunds are issued to patients who personally paid for medical services that are covered by health insurance. Refunds are also issued to businesses and individuals for various permits and training cancellations through environmental health.

An effective set of controls is in place to ensure that refund requests are properly authorized, recorded, and reviewed. For the scope of this audit, a total of 568 refund checks were in the population.

An analysis was performed on a sample of 95 checks to determine the average number of days that transpired from initial refund request to check printing. On average, 41 days transpired before the check was issued and over half (56.7%) of all payments were issued beyond 30 days.

Generally, we found attentive and effective management practices and consistent recording of refund checks issued, along with supporting documentation that provided a clear audit trail. We did, however, find areas

SLVHD Refund Imprest Account Audit

GREGORY P. HAWKINS
Salt Lake County Auditor

2001 South State Street, N3300
PO Box 144575
Salt Lake City, UT 84114-4575

(385) 468-7200
(385) 468-7201 / fax

GHawkins@slco.org

LONN LITCHFIELD, JD, LLM
Chief Deputy Auditor

MICHAEL P. CHABRIES, PhD
Senior Advisor

BRAD A. ROGERS
Executive Assistant

where improvements could be made to provide more effective compliance and control of the imprest account.

IMPREST CHECKING ACCOUNT

Our findings in the area of internal control and management of the imprest checking account are as follows:

- ***The custodian of record did not match the individual who controls the imprest checking account.***
- ***Bank reconciliations were performed quarterly instead of monthly.***
- ***Bank reconciliations were performed by the acting custodian, in violation of Countywide policy.***
- ***Unresolved reconciling items were carried on the reconciliation.***
- ***Unclaimed property was included in bank funds as stale-dated checks.***
- ***Some payee addresses on checks were inaccurate or missing.***

The custodian of record did not match the individual who controls the imprest checking account. The individual assigned physical control of the imprest checking account was different than the custodian of record.

Countywide Policy #1203, *Petty Cash and Other Imprest Funds*, Section 1.5 defines the custodian as:

An individual designated by Agency Management to be personally responsible for the operation and integrity of a Petty Cash or other Imprest Fund Account...

The custodian of record is liable for any losses incurred as a result of actions by the individual that has physical custody and control of the imprest checking account.

Due to personnel changes, custody of the imprest checking account had been transferred to the Deputy Director, but was not updated when the current individual was assigned to control the account.

RECOMMENDATION:

An MPF Form 2 “Request for Modification or Establishment of Petty Cash, Change, or Other Imprest Fund” should be submitted to Mayor’s Operations showing the new custodian’s name, per Countywide Policy #1203, Section 3.1.1.

Bank reconciliations were performed quarterly instead of monthly. The reconciliation of the imprest checking account was performed once every three months. Countywide Policy #1203, Section 5.1.3 states:

In the case of Imprest Checking/Operating Accounts, the account's bank statement balance shall be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian.

Delay in reconciling the account violates Countywide policy and effective internal controls. A regularly performed reconciliation process identifies transactions that have been recorded on the bank statement and not on the check register or the accounting system. Reconciling accounts on a less than monthly basis increases the risk that financial results will be misstated, delays the identification of fraudulent transactions, and sets a tone that allows unresolved transactions to be carried forward.

The former accountant had not reconciled the imprest account for a significant period. The current accountant discussed the process with peers and it was decided that a quarterly reconciliation would be sufficient. However, they were unaware of the monthly requirement set by Countywide policy.

RECOMMENDATIONS:

- 1. The imprest checking account should be reconciled at least monthly to comply with Countywide policy.**
- 2. Management should review the monthly reconciliation, and date and initial it as reviewed.**

Bank reconciliations were performed by the acting custodian in violation of Countywide policy.

The individual who issues checks and requests reimbursement (the acting custodian) for the imprest account also performs the reconciliation.

Countywide Policy #1203, Section 5.1.3 states:

In the case of Imprest Checking/Operating Accounts, the account's bank statement balance shall be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian.

The current practice violates Countywide policy and effective internal controls.

As noted above, the previous accountant had not reconciled the account for a significant period. The new acting custodian took the initiative to bring the reconciliation current, but the practice of the acting custodian performing the reconciliation continued.

RECOMMENDATION:

The person who reconciles the imprest account should be different than the custodian of the account.

Unresolved reconciling items were carried on the reconciliation. Two items that did not reconcile were carried forward on the account reconciliation without resolving the issue. The first item, dated June 21, 2006, was carried as a negative deposit in transit in the amount of -\$2,135.81. In essence, this is a deposit that was not recorded in the check register. The second item (undated) is an 'Other outstanding' item in the amount of \$549.42.

Countywide Policy #1203, Section 5.1.3 requires an account to be reconciled monthly. When issues are identified, the account is not reconciled until the issues are resolved. These types of issues should be resolved while memories are fresh and evidence is available. The net effect of these two items is an

overstatement of the check register balance by \$1,586.39. Carrying forward reconciling items beyond one month delays the proper classification of transactions in the financial records, and affects the register balance.

Since the previous accountant created these reconciling items, the current accountant was unable to specifically identify the reason for the \$549.42 item that was carried prior to 2003.

The overall effect of carrying the two reconciling items on the check register balance is detailed in Figure 1 below.

RECONCILIATION ANALYSIS for December 31, 2011	
<u>Item</u>	<u>Amount</u>
Bank Statement Beginning Balance	20,597.22
Add: Deposits in Transit	0.00
Subtotal	20,597.22
Less: Outstanding Checks	12,041.89
Less: Other Outstanding	549.42
Total	8,005.91
Check Register Balance ⁽¹⁾	8,005.91
Difference	0.00
⁽¹⁾ Inclusive of an unrecorded deposit	
12/31/2011 Register Balance	5,870.10
Add: 06/21/2006 Unrecorded Deposit	2,135.81
Adjusted Register Balance	8,005.91
Effect on Register Balance	
Adjusted Register Balance	8,005.91
Add: 01/18/2012 Reimbursement Request	4,129.90
Ending Register Balance	12,135.81
Less: Account Limit	10,000.00
Less: Other Outstanding	549.42
Total Overstated Register Balance	1,586.39

Figure 1. Analysis for the December 31, 2011 Reconciliation

RECOMMENDATION:

Outstanding reconciling items should be resolved and a letter detailing the adjustment should be sent to the SLVHD Director and Fiscal Manager.

Unclaimed property was included in bank funds as stale-dated checks. The most recent reconciliation listed 207 stale-dated checks dated prior to December 31, 2010, totaling \$6,251.61. Countywide Policy #1203, Section 5.1.4 states:

Copies of Stale-Dated Checks issued from an Imprest Checking/Operating Account, shall be submitted by the Custodian to the Treasurer's Office. In addition, a copy of the MPF Form 6 documenting the original reimbursement detail shall be attached. A check issued by the Custodian for the total of the Stale-Dated-Checks shall be included with the above documentation for submission by the Treasurer to the Utah State Unclaimed Property Division.

The practice of carrying stale-dated checks inflates the account balance, creates a liability that could have a negative impact on revenue, and leaves the payee unaware of the payment. The State's Unclaimed Property site provides a clearinghouse to the general public, thus freeing County resources from researching the payee's current address.

Changes in custodian of the imprest account and the accounting personnel delayed submission of these items as unclaimed property to the Treasurer's Office.

RECOMMENDATION:

Copies of stale-dated checks, a MPF Form 6 documenting the original reimbursement, and a check for the total amount of unclaimed property should be submitted to the Treasurer's Office.

Some payee addresses on checks were inaccurate or missing. Three checks in our sample had inaccurate or missing payee addresses. See Table 1 below for details.

OUTSTANDING CHECKS WITH PAYEE ADDRESS ERRORS					
Check #	Date	Payee	Amount	Description	
3163	04/12/10	M***** R*****	43.56	Misspelled street name	
3171	04/12/10	C***** C*****	4.00	Address missing from check	
3609	12/12/11	M***** V*****	100.00	Medicaid card has different address	

Table 1. Outstanding checks with payee address errors.

Checks should always include complete and accurate payee mailing addresses to insure they are received by the intended payee. The effects of inaccurate or missing payee addresses could result in a payment not being delivered to the intended payee and thus leading to a stale check or possession by a different individual.

The review process at the time the checks were issued missed the errors.

RECOMMENDATION:

The checks with incorrect or missing addresses should be voided and reissued with correct information.

We appreciate the time taken by the Health Department staff in answering our questions, researching materials, and allowing us access to records during our audit. We understand they have many other duties, so their willingness to help was especially appreciated. We trust that implementation of these recommendations will provide for a more compliant operation of the imprest checking account and better safeguarding of County assets. Please feel free to contact me if you have any further questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By:  _____

James Fire
Deputy Auditor, Compliance and Performance Assessment

Cc:
Peter Carroon
Brian Bennion
Doug Peterson
Glenna Jensen
Kayla Doud