

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of the Key Controls of
Records Management and Archives

August 20, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LL.M.
Chief Deputy 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

August 20, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Records Management and Archives

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Records Management and Archives 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 Records Management and Archives and the cooperation from Karri Krattley, Program Manager, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Records Management and Archives 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 James Fire MBA/Acc
Deputy Auditor

cc: Terry B. Nelson, Director
Darrell Passey, Assistant Director



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Records Management and Archives. 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

Standard audit procedures include a review of prior findings. A search of audit reports beginning in 1988 to the present revealed that Records Management and Archives had not been audited. The Director confirmed that this is the first formal audit that she is aware of. The audit found a few areas at risk. Most of these risks were minor and included: the lack of cash balance sheets being used to balance collections, Countywide accounts receivable policy requirements not being followed, inadequate controls for payments received by mail, untimely deposits, and receipt logs not being used. Overall, these findings were related to the need for training in Countywide policies related to cash management and accounts receivable.

Findings and Recommendations

Finding # 1 - Cash balance sheets were not used to balance collections.

Risk Level: Moderate

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 developed for and produced by the specific Agency."

Currency and checks were not recorded and balanced against the day's manual receipts on a cash balance sheet.

The Program Manager stated that staff was unaware of Countywide policy requirements.

By not using a cash balance sheet to balance collections, accountability of funds cannot be determined. In addition, overages or shortages cannot be traced to an individual.

Recommendation

We recommend that MPF Form 3A or similar form be used to balance collections to cash receipt totals.

We also recommend that MPF Form 3A be reviewed and signed by a supervisor.

Finding # 2 - Deposits were not always posted within three days of receipt.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by 51-4-2, Utah Code Annotated, each officer shall deposit all public funds daily whenever practicable but not later than three days after receipt."

A random sample of deposits was tested to determine the number of days transpiring between the date of receipt and the date of posting into the bank account. Of the 30 deposits examined, 26 were beyond the three-day allowance.

The Assistant Director and the Program Manager stated that it was their practice to prepare deposits once a week, usually on Friday.

Funds that are not deposited within the State mandated three days, are susceptible to loss or theft, are unavailable for agency use, and interest that might otherwise have accrued is lost.

Recommendation

We recommend that funds be deposited in the same day whenever practicable, but no later than three days after receipt.

Finding # 3 - Deposits were not submitted in a sealed, plastic, tamper-proof bag.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.3.1 states:

"Agencies will submit their daily deposits in a sealed, plastic, tamper-proof deposit bag.

Deposits were not sealed in plastic, tamper-proof deposit bags for delivery to the bank.

The Assistant Director stated that staff were unaware of the requirement to use tamper-proof deposit bags.

When sealed, plastic, tamper-proof deposit bags are not used, there is no reasonable assurance that deposits are delivered intact to the depository institution.

Recommendation

We recommend that sealed, plastic, tamper-proof bags be used for deposits.

Finding # 4 - A receipt log was not used for manual receipt books.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.5.4 states:

"The supply of unissued manual receipts shall be secured in a safe, locked drawer, or other secure area. The first and last numbers of receipts should be verified by the Cashier Supervisor and entered into a receipt log maintained by the Agency. As blank receipts are released to Cashiers for use, the log shall be updated, accordingly."

A log for pre-numbered receipt books was not used to indicate which blank receipts were released to Cashiers for use.

The Program Manager stated that staff was not aware of the requirement by Countywide policy.

Without a receipt log, management cannot readily determine where the receipt books are located, verify if receipts are issued sequentially, and provide accountability to cashiers for receipts released to them.

Recommendation

We recommend that a receipt log be used to track usage of pre-numbered receipts.

Finding # 5 - Accounts receivables did not conform to Countywide policy requirements.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," provides specific guidelines, controls, and example forms and reports for an effective accounts receivable system.

An accounts receivable for research services and record copies was established to accommodate vendors who use Records Management and Archives on a regular basis. The system lacks some key elements such as: signed credit applications, monthly aging reports, and monthly reconciliations.

The Program Manager stated that the accounts receivables evolved over time without awareness of Countywide policy guidelines.

The lack of signed credit applications could hinder legal remedies to collect outstanding billings, especially if they are turned over to the District Attorney's Office. Without an aging report, management cannot determine follow-up activities to bring accounts current. The lack of a monthly reconciliation could conceal missing or incorrectly applied payments.

Recommendation

We recommend that Records Management update the accounts receivable system by listing individual receivables, cross-referencing receipt numbers for payments received, and maintaining an aging schedule.

Finding # 6 - Adequate controls were not in place for payments received by mail.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.1.5 states:

"Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

Section 3.1.6 continues:

"The duties of opening the mail and summarizing the daily receipt of checks should be separated from the duty of posting payments in the cash receipts journal unless Agency Management determines that doing so is operationally burdensome. If operationally burdensome, Agencies shall adopt compensating internal controls to insure that posting of payments to accounts is consistently overseen and reviewed by Agency Management or Fiscal Managers."

Payments received in the mail were opened and receipted by one individual. Compensating controls were not in place to separate the duties.

The Program Manager stated that the small staff size created trust among the employees to perform duties without consideration of compensating controls.

When checks are not opened under the supervision of two people and included on a check log, there is an increased risk that funds will be lost or diverted to personal use. Lack of segregation of duties over billing or tracking and receipting payments increases this risk.

Recommendation

We recommend that Records Management create compensating controls to separate duties for payments received in the mail. Although positive working relationships help build comradery, objective verification controls should be in place.

Additional Information

Background

The County Archives stores historical County government records dating from 1852 to the present. Records include territorial records such as minutes, correspondence, and ledgers from various County offices such as the Clerk, Assessor, Treasurer, and the Territorial Selectmen. More recent records include annual reports, building permits, property appraisal cards, photographs, tax ledgers, Board of Health minutes, and minutes and correspondence from the Board of County Commissioners.

Historical property records include property tax appraisal cards and photographs from the years 1936-1980s, tax assessment rolls and tax ledgers from 1852 to the present, and aerial photographs from 1946, 1952, 1958, and 1964.

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 May 30, 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.



Ben McAdams
Salt Lake County Mayor

Jill Carter
Administrative Services
Department Director

Megan Hillyard
Administrative Services
Associate Director

**RECORDS MANAGEMENT
& ARCHIVES DIVISION**

Terry Blonquist Nelson
Division Director
TBNelson@slco.org



records
management
&
ARCHIVES

*"Unlocking the past,
securing our future"*

August 20, 2012

Gregory P. Hawkins, Auditor
2001 South State Street N3300
Salt Lake City, UT 84114-4575

Re: Division of Records Management & Archives' Response to Key Control Audit

Dear Mr. Hawkins:

Our division was audited in June of 2013 and we have reviewed the findings and recommendations of the report. Our responses and actions taken to the specific findings are below. Karri Krattley, the Archives Manager, has been responsible to implement actions taken, which are now in place.

Finding #1 – Cash balance sheets were not used to balance collections:

Since the audit was done, staff is now consistently attaching balance notes to deposit slips and bank information using the division's existing internal note process.

Finding #2 – Deposits were not always posted within three days of receipt.

Due to the small staff size (4.5 employees) of the division, the director has determined that the practice of a weekly deposit will continue. This is in the best interest of the division in terms of use of staff time and mileage costs to the division.

Finding #3: Deposits were not submitted in a sealed, plastic, tamper-proof bag.

Staff has obtained sealed, plastic, tamper-proof deposits bags for all future deposits.

Finding #4: A receipt log was not used for manual receipt books.

Staff is using a receipt log to track usage of pre-numbered receipts. The Archives Manager has created a receipt book log for this purpose.

Finding #5: Accounts receivables did not conform to countywide policy requirements.

Staff has updated the accounts receivable system by implementing monthly aging reports, monthly reconciliations, and signed credit applications for those businesses that are billed each month. These forms have been developed by the Archives Manager for use by staff.

Finding #6: Adequate controls were not in place for payments received by mail.

Staff has implemented the use of a check log to document all checks received through the mail. Because of the small staff size in Archives, it is operationally burdensome to require two staff members to be present during the opening of any letters received through the mail that contain checks.

We appreciate the professionalism of your staff during the course of the audit.

Sincerely,

Terry Blonquist Nelson, Director
Records Management & Archives Division

- c. James Fire, Deputy Auditor
Jill Carter, Dept. of Administrative Services Director
Darrell Passey, Records Management & Archives Assistant Director