

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



An Audit of the
Capital Projects Revolving Fund

January 08, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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January 08, 2014

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

Re: An Audit of the Capital Projects Revolving Fund

Dear Mayor McAdams:

We recently completed an analysis of the Capital Projects Revolving Fund pursuant to 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. 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 Mayor's Financial Administration and the cooperation from Greg Folta, Steve Gabrielson, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Capital Projects Revolving Fund 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 Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Darrin Casper, Chief Financial Officer
Greg Folta, Director of Finance Administration
Karl Goodman, Director of Accounting
Lance Brown, Budget Director

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LL.M.
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Objectives

The Capital Projects Revolving Fund allows County funds and agencies to engage in short term borrowing by making internal loans. Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of the Capital Projects Revolving Fund. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with selected internal controls. The scope of our audit was to examine account activity and interest accumulation for all organizations within the Capital Projects Revolving Fund.

Conclusion

We found that some organizations need to be removed from the fund due to lack of activity or a changed purpose. One of these organizations maintained a negative balance exceeding \$600,000 as of June 30, 2013, although the purpose for which the organization was included in the fund was completed.

Findings and Recommendations

Finding # 1 - A designated fund project maintained a negative balance exceeding \$600,000, although the purpose for borrowing was completed.

Risk Level: Low

Stephen J. Gauthier. (2012). "Governmental Accounting, Auditing, and Financial Reporting." (GAAFR) Chicago, Illinois: Government Finance Officers Association, page 42 states:

"GAAP provide capital projects funds 'to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays'...Typically a capital projects fund is not used for routine capital outlays, which are reported instead by function in the general fund...The use of a capital projects fund would not be appropriate for the acquisition of assets to be held in trust. "

The Integrated Justice Information System (IJIS) borrowed from the Capital Projects Revolving fund and transferred money in from other funds to develop a computer system that provides criminal justice information to a variety of organizations in a common database. Development has been complete for a year, and programmers have been mostly working on maintenance. However, on June 30, 2013, IJIS still owed \$600,000.

The negative balance accumulated as overhead charges were allocated to IJIS. These overhead charges were related to system maintenance, not development. IJIS was included in the Capital Projects Revolving Fund to develop the system, not to maintain it.

When projects within the fund operate outside of their established purpose, the fund loses focus, and overhead costs unnecessarily accumulate. Furthermore, the negative balance reduces the Capital Projects Fund balance as a whole.

Recommendation

We recommend that the Integrated Justice Information System organization be removed from the Capital Projects Revolving Fund to eliminate continued accrual of overhead costs to the fund.

We recommend that the approximate \$600,000 associated with IJIS be spread among criminal justice related agencies, as appropriate.

Finding # 2 - Some projects were idle within the Capital Projects Revolving Fund while maintaining fund balances.

Risk Level: Low

Stephen J. Gauthier. (2012). "Governmental Accounting, Auditing, and Financial Reporting." (GAAFR) Chicago, Illinois: Government Finance Officers Association, page 42 states:

"GAAP provide capital projects funds 'to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays'...Typically a capital projects fund is not used for routine capital outlays, which are reported instead by function in the general fund...The use of a capital projects fund would not be appropriate for the acquisition of assets to be held in trust. "

A few organizations maintained little or no activity within the Capital Projects Revolving Fund. One organization, designated as "General," showed no related disbursements in 2012 and 2013 and a positive balance of \$65,000. Another organization, "Public Safety Communications," showed one expenditure of \$1,545 since January 1, 2012 with a positive balance of \$759,000. A third organization, "Energy Efficiency" showed one expenditure of \$9,108 since January 1, 2012 and a negative balance of \$15,978.

Management stated that the organization designated as General was used in previous years to accumulate fund interest, though the organization no longer has this purpose. They stated no further projects have been proposed for the other two organizations.

When balances remain idle, funds are not managed to maximize results, and administrative time to track these organizations is unnecessarily required.

Recommendation

We recommend that the organization designated as "General" within the Capital Projects Revolving Fund be eliminated, and its balance used for another purpose.

We recommend that management address whether the Public Communications organization is needed in the fund, and if not, that it be placed in another, more appropriate operational fund.

We recommend that the negative balance in the Energy Efficiency project be moved out of the Capital Projects Revolving Fund.

Additional Information

Background

Proposed by a former County budget director, the Capital Projects Revolving Fund was established over 25 years ago as a way to finance projects at a mid-level cost, thereby foregoing bond issuance. As a practical matter, many County organizations use the fund as a vehicle to accumulate money for envisioned future projects or purchases. Currently 18 projects, or organizations, are included within the fund. For example, Parks and Recreation transfers \$500,000 to the fund each year to purchase Recreation equipment and computers. While this project has remained in the fund for over 20 years, most projects remain only until project completion. Implementation of PeopleSoft software, the current financial system replacement project, is being accounted for in the Capital Project Revolving Fund. The fund's balance at the beginning of 2013 was \$12,038,000.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Account Activity
- Administrative Adjustments
- Interest
- Accounting for Capital Assets
- Purpose of Expenditures

Our examination period covered up to twelve months ending June 30, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation 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.



**MAYOR'S FINANCIAL
ADMINISTRATION**

Darrin Casper
Chief Financial Officer

January 7, 2014

Gregory P. Hawkins
Salt Lake County Auditor
2001 S. State Street, N3300
PO Box 144575
Salt Lake City, UT 84114-4575

Re: Management Response – Capital Projects Revolving Fund Audit

Dear Mr. Hawkins:

Recently, the Salt Lake County Auditor's Office conducted an Audit of the Capital Projects Revolving Fund. This Audit yielded two findings regarding the sufficiency and compliance of the accounting records and financial administration for the Capital Projects Revolving Fund, and included recommendations for addressing these findings. Management has reviewed the Audit findings and recommendations, and has prepared a Management Response to the findings and recommendations, to be included with the Audit Report (please see attached).

I appreciate the professional manner in which this Audit was conducted, and concur with the Audit recommendations. If you have any questions regarding this Management Response, or would like to discuss it further, please do not hesitate to contact me.

Sincerely,

Darrin Casper
Chief Financial Officer
Mayor's Financial Administration

att: Management Response

cc: Larry Decker

DC/sg

Management Response to the Findings and Recommendations of An Audit of the Capital Projects Revolving Fund

Finding #1 - A designated fund project maintained a negative balance exceeding \$600,000, although the purpose for borrowing was completed.

Recommendation:

We recommend that the Integrated Justice Information System organization be removed from the Capital Projects Revolving Fund to eliminate continued accrual of overhead costs to the fund.

We recommend that the approximate \$600,000 associated with IJIS be spread among criminal justice related agencies, as appropriate.

Response:

As of January 1, 2014, the Capital Projects Revolving Fund (Fund 670) will be closed. Projects in the fund that are completed will be liquidated, meaning that funds will either be drawn from or sent to the funding source associated with each project having an outstanding debit or credit project fund balance. Projects in the fund that are not yet completed will be moved either to the fund in which the division having managerial responsibility for the operations associated with the project is accounted (e.g., Library Fund), or to the fund in which the sole or primary funding source for the project is accounted (e.g., TRCC Fund). Accounting responsibility for the continuing projects that have been accounted for in the Capital Projects Revolving Fund will be decentralized, and will devolve to the divisions having managerial responsibility for each project.

Although the IJIS project is substantially complete and is operational, there is still some capital project work being done on it. The ongoing operating and maintenance costs related to IJIS will be accounted for with CJAC management in Regional Development, and the remaining capital costs will be accounted for in a Capital Projects department ID set up in the General Fund.

Finding #2 - Some projects were idle within the Capital Projects Revolving Fund while maintaining fund balances.

Recommendation:

We recommend that the organization designated as "General" within the Capital Projects Revolving Fund be eliminated, and its balance used for another purpose.

We recommend that management address whether the Public Communications organization is needed in the fund, and if not, that it be placed in another, more appropriate operational fund.

We recommend that the negative balance in the Energy Efficiency project be moved out of the Capital Projects Revolving Fund.

Response:

The Capital Projects Revolving Fund (Fund 670) will be closed, as of January 1, 2014. Projects in the fund that are completed will be liquidated, meaning that funds will either be drawn from or sent to the funding source associated with each project having an outstanding debit or credit project fund balance. Accordingly, the fund balances for the "General" organization, as well as for completed projects such as the Energy Efficiency Projects and the Public Safety Communications Project, will be brought to zero through fund balance transfers and closed.