

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



An Audit of the Key Controls of
Contracts and Procurement Division

December 05, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 05, 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 Contracts and Procurement Division

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Contracts and Procurement Division 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 Contracts and Procurement Division and the cooperation from Jason Yocom, Brian Anderson, Michelle Roach, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Contracts and Procurement Division 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: Jason Yocom, Director



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Contracts and Procurement Division. 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

In our audit of the Contracts and Procurement Division, we found several gaps in receipt sequencing, and lack of a receipt log to account for blank manual receipts in stock. In addition, balance sheets were not signed by the cashier and another designated employee, deposits were not always timely, and a small depository account was not reconciled. Receipts were not written for checks received by mail as a means to document balancing and depositing procedures. Also, a capital asset did not have the County property tag attached.

Findings and Recommendations

Finding # 1 - Bank reconciliations were not performed.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.7.2 states:

"A Bank Reconciliation shall be performed at least monthly by an employee designated by Agency Management."

We examined the bank statements for the period October 2012 through September 2013. We found that none of them were reconciled to email notifications of account deposits from an on-line auction company.

Management stated that they once performed these reconciliations, but after consistently finding that no differences occurred, they decided the process was not necessary.

Without bank reconciliations, any collections reported but not deposited by the third party auction company would remain undiscovered.

Recommendation

We recommend that bank reconciliations be performed monthly.

Finding # 2 - Pre-numbered manual receipts were not used sequentially.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.5.3 states:

"If a County Agency uses manual receipts, they shall be pre-numbered and used in numerical order."

We found 15 manual receipts missing from the sequence used in receipting surplus sales transactions over the last 12 months.

Management stated that receipts may be discarded at surplus sales because customers back out of an intended purchase for which a receipt was already written. Moreover, blank receipts are not bound in a receipt book, making them more susceptible to loss.

Failure to use pre-numbered receipts sequentially increases the risk of funds being lost, stolen, or converted for personal use.

Recommendation

We recommend that Contracts and Procurement use pre-numbered receipts in numerical order.

Finding # 3 - Cash balance sheets were not reviewed and signed by an independent party.

Risk Level: Low

Countywide Policy #1062, 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. (See Appendix 1 [MPF Form 3A] attached)."

None of the 30 balance sheets we examined in our deposit sample were signed by either the cashier or another designated employee as evidence of review.

Though the balance sheet includes a cashier signature line, management stated they were not aware of the requirement for an actual signature.

When cash balance sheets are not signed by the cashier and an independent person as evidence of review, accountability for funds is lost and become a greater risk for being lost, stolen, or diverted for personal use.

Recommendation

We recommend that cash balance sheets be signed by the cashier and an independent person as evidence of review.

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

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 receipts was not used to indicate which blank receipts were released to Cashiers for use.

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

Recommendation

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

Finding # 5 - Deposits were not always made in a timely manner.

Risk Level: Low

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

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

We found that 10 out of 30 deposits examined were deposited more than three days after receipt of collections.

According to management, funds are taken to Mayor's Financial Administration for processing and depositing as a routine practice, instead of being directly deposited in the bank by Contracts and Procurement personnel. Management stated that they sometimes overlooked taking funds to Mayor's Financial Administration in a timely manner.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that might otherwise be accrued.

Recommendation

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

Finding # 6 - A capital asset did not have the County property tag attached.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.8 states one of the property manager's duties as follows:

"Coordinate with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established, and capital assets are tagged and capitalized."

We found a forklift at the surplus warehouse that did not have a County property tag attached.

Management stated that a simple oversight resulted in the forklift never having had its property tag attached. In this case, the asset number assigned is a type issued by Fleet Management and would require that it be painted on, or a large numbered decal attached.

Capital assets that do not have the property tag attached are more likely to become lost or stolen due to insufficient tracking and identification.

Recommendation

We recommend that the County property number be imprinted on or attached to the surplus warehouse forklift.

Finding # 7 - No comprehensive software inventory was on file.

Risk Level: Low

Countywide Policy #1400-3, "Software Licensing Policy," Section 3.5 states:

"County agency management shall maintain a current software inventory which includes at least the following: number of authorized and actual installations, license agreement, and proof of purchase."

The Contracts and Procurement Division did not maintain a current software inventory.

When a software inventory is not maintained, there is an increased risk of unlicensed software on Contracts and Procurement computers, which could result in fines and penalties. In addition, available software licenses may not be fully utilized.

Recommendation

We recommend that Contracts and Procurement maintain a current software inventory.

Additional Information

Background

The Director of Contracts and Procurement is the designated County purchasing agent. The Contracts and Procurement Division approves all purchase orders, processes and approves all contracts, and researches economical purchases for the County. They request and open bids, and convene a contractor selection committee when called for in a Request for Proposal (RFP). Also, the Division is assigned to coordinate issuance of purchasing cards throughout the County, and to train cardholders. As one of its more visible functions, the Division operates the surplus warehouse, conducts periodic surplus sales, and receives payments from third party auctioneers for County surplus items these auctioneers sell. The Division has 9 employees and a 2013 budget of \$1.145 million.

Scope

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

- Change fund
- Cash Receipting
- Cash Depositing
- Capital and Controlled Assets and Software Inventory
- Contracts
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending September 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.



December 5, 2013

Larry Decker
Senior Deputy Auditor
Salt Lake County Auditor's Office

BEN McADAMS
Salt Lake County Mayor

Jill E. Carter
Administrative Services
Department Director

**CONTRACTS &
PROCUREMENT
DIVISION**

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Dear Larry,

Below are the Contracts and Procurement Division's responses to your audit findings.

Finding 1 - Bank reconciliations were not performed.

Recommendation - We recommend that bank reconciliations be performed monthly.

Response – Management was under the understanding that monthly reconciliations were being done. We will ensure this happens.

Finding 2 - Pre-numbered manual receipts were not used sequentially.

Recommendation - We recommend that Contracts and Procurement use pre-numbered receipts in numerical order.

Response – This procedure will be implemented if we administer another surplus sale. Surplus sales are usually held annually and we are looking into outsourcing the sales process.

Finding 3 - Cash balance sheets were not reviewed and signed by an independent party.

Recommendation - We recommend that cash balance sheets be signed by the cashier and an independent person as evidence of review.

Response - This is not an explicit requirement of county policy but will be implemented.

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

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

Response – This will be implemented.

Finding 5 – Deposits were not always made in a timely manner.

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

Response – Employees have always been instructed to deposit funds on the same day as receipt. We will ensure this is implemented.

Finding 6 - A capital asset did not have the County property tag attached.

Recommendation - We recommend that the County property number be imprinted on or attached to the surplus warehouse forklift.

Response – A tag for this asset was never provided. We will contact Fleet Management or Asset Management to provide a tag.

Finding 7 - No comprehensive software inventory was on file.

Recommendation - We recommend that Contracts and Procurement maintain a current software inventory.

Response – Contracts and Procurement has made one software purchase in the last twelve months. We will develop and maintain an inventory.

Thank you,



Jason Yocom

Division Director

Contracts and Procurement Division