

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



An Audit of the Key Controls of
Public Works Engineering/Flood Control

June 07, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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June 07, 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 Public Works Engineering/Flood Control

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Public Works Engineering/Flood Control 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 Public Works Engineering/Flood Control and the cooperation from Heather Valero, Valerie Warren, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Public Works Engineering/Flood Control 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 Todd Livingston
Deputy Auditor

cc: Patrick Leary, Public Works Department Director
Scott Baird, Division Director
Amy McCormick, Fiscal Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Public Works Engineering/Flood Control. 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

Public Works Engineering/Flood Control has put into place key controls for managing public funds. Several positive control attributes were noted, including strong controls over purchasing card procedures, monitoring capital assets, and petty cash. Most risks identified were minor and were not expected to result in material loss. Deficiencies in certain internal controls over controlled assets, tracking computer software, and cash depositing have a higher likelihood of leading to a loss of County property.

Findings, Recommendations, and Management Responses

Finding # 1 - Master balance sheets were not used.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 4.2 states:

"The 'master' balance sheet shall be reviewed and reconciled to the bank deposit slip, and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit."

Although deposits were well documented and balanced, a "master" balance sheet was not used by Public Works Engineering/Flood Control.

Failure to use a "master" balance sheet increases the risk of mistakes in the computation of funds, creating a greater potential of County funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Public Works Engineering and Flood Control use a "master" balance sheet and that an employee, not preparing the deposit and with equal or higher authority review and sign the "master" balance sheet.

Management Response

See Appendix A.

Finding # 2 - Daily transactional receipts could be altered, reprinted, and/or deleted.

Risk Level: Low

Standard business practice requires that cashiers should not be able to reprint or alter the receipts of prior transactions.

During the course of our review, we found that prior to supervisor approval, the daily transaction receipts could be altered and/or reprinted by the cashier. We also found that supervisors could delete transactions entirely at any time.

When receipts can be altered and/or reprinted, the accuracy and completeness of transactions cannot be ensured. The risk of errors and misappropriation of County funds is increased.

Recommendation

We recommend that the ability for cashiers to reprint and/or alter the daily transactional receipts, and for supervisors to delete transactions, be disabled.

Management Response

See Appendix A.

Finding # 3 - Internal controls over payments received through the mail were not adequate.

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."

Only one employee opened the mail directed to Public Work Engineering/Flood Control.

When mail is not opened under dual control, County funds are at greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the mail be opened in the presence of two persons.

Management Response

See Appendix A.

Finding # 4 - Deposits were not always made 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, all public funds shall be deposited daily whenever practicable, but not later than three days after receipt."

During deposit review, we noted that ten of the thirty deposits reviewed were made more than three days after receipt. Four of those ten deposits occurred after June 1, 2012.

Funds that are not deposited on a timely basis are more susceptible to loss or theft, and interest that might otherwise have accrued is lost.

Recommendation

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

Management Response

See Appendix A.

Finding # 5 - Records were not maintained as to the physical location of all controlled assets.

Risk Level: Low

Countywide Policy #1125 "Safeguarding Property/Assets," Section 2.2.3, under Property Manager's Duties, property managers are responsible to:

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

The controlled asset inventory list used by Public Works Engineering/Flood Control listed the physical location of 11 controlled assets as "unknown," or "missing."

When records are not maintained as to the current physical location of controlled assets, employee accountability is not established, asset inventories are more difficult to perform, and theft of assets is more likely to occur and remain undetected.

Recommendation

We recommend that Public Works Engineering/Flood Control update and maintain their records as to the physical location of all controlled assets within their operation.

Management Response

See Appendix A.

Finding # 6 - A subordinate staff member approved timecards for higher level staff.

Risk Level: Low

The Mayor's Office Payroll Manual, Section 2.5 states:

"All records where employees make the original entry of time and attendance must be approved by at least the immediate supervisor before information is posted to the County payroll system Time and Attendance Report."

The Public Works Engineering/Flood Control Office Supervisor approved a supervisor's timecard.

By nature of their position, subordinates are subject to a supervisor's influence and cannot provide independent review of the supervisor's time. Therefore, the time approved is in greater risk of being inaccurate.

Recommendation

We recommend that employee timecards be approved by a direct supervisor or other higher level member of management.

Management Response

See Appendix A.

Finding # 7 - Over/Short amounts were not generated by the software application nor manually entered on MPF Form 3A.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Section 3.8.1.4 states:

"An 'over/short' or 'no-difference' amount between the cash count (cash and checks only, not payment card amounts), and recorded receipt totals shall be generated by the software application, or manually entered on the designated line of the MPF Form 3A."

The software application used by Public Works Engineering/Flood Control did not generate an “over/short” or “no-difference” amount between the cash count and recorded receipt totals in the daily cashiering report and MPF Form 3A was not used.

Failure to use MPF Form 3A or a software application program that generates "over/short" or "no-difference" amounts between the cash count and recorded receipt totals, creates a greater risk of County funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Public Works Engineering/Flood Control use MPF Form 3A, or a software application that generates an "over/short" or "no-difference" amount between the cash count and recorded receipt totals, to track overages and shortages.

Management Response

See Appendix A.

Finding # 8 - Checks were not restrictively endorsed upon receipt.

Risk Level: Low

Countywide Policy #1062 “Management of Public Funds,” Section 3.6.1 states:

“All checks and negotiable instruments received by Cashiers shall be restrictively endorsed immediately upon receipt using the Agency’s approved restrictive endorsement stamp.”

Checks received over the counter and through the mail are placed in a drawer and are not endorsed until later in the day.

Failure to endorse checks immediately upon receipt creates a greater risk of County funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend restrictively endorsing checks immediately upon receipt.

Management Response

See Appendix A.

Finding # 9 - The controlled asset inventory form used did not follow Countywide policy procedures.

Risk Level: Low

Countywide Policy #1125 "Safeguarding Property/Assets," Section 4.3 states:

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures. 4.3.1 Exhibit 3 - 'Controlled Assets Inventory Form - Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual. 4.3.2 Exhibit 4 - 'Controlled Assets Inventory Form - Organization' is used for property not readily assignable to an individual employee or which is shared by more than one employee. 4.3.3 The 'Certification' on Exhibits 3 and 4 states that the employee (for assets assigned to employees), and the Property Manager (for assets not assigned to individual employees) are accountable for all property assigned to them."

Public Works Engineering/Flood Control did not have a "Controlled Assets Inventory Form - Organization," or similar form on file and the small item inventory list used for employees did not contain substantially the same information as Countywide Policy #1125 Exhibit 3, "Controlled Assets Inventory Form - Employee."

Failure to perform, document, and maintain a controlled asset inventory list according to Countywide policy procedures increases the risk of assets being lost, stolen, or diverted for personal use.

Recommendation

We recommend Public Works Engineering/Flood Control use Exhibits 3 and 4 of Countywide Policy #1125, or forms containing substantially the same information, to document controlled assets.

Management Response

See Appendix A.

Finding # 10 - The software inventory list on file was not current.

Risk Level: Low

Countywide Policy #1400-3 "Information Technology Security Policy: 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. County agency management shall conduct an annual review of their software inventory. Software inventories shall be updated whenever new software is acquired and/or installed or software is uninstalled, or the IT resource and/or system is transferred, decommissioned or sent to surplus."

Public Works Engineering/Flood Control did not maintain a current software inventory list.

Failure to maintain a current software inventory list increases the risk of unlicensed software on Public Works Engineering/Flood Control computers, which could result in fines and penalties. In addition, available software licenses may not be fully utilized.

Recommendation

We recommend that Public Works Engineering/Flood Control maintain a current software inventory list.

Management Response

See Appendix A.

Additional Information

Background

Salt Lake County Flood Control/Engineering designs and protects the future of the County. The Engineering Division provides services on both a Countywide basis and for the unincorporated Salt Lake County. Flood control and water quality projects are part of the division's Countywide services.

Public Works Engineering provides planning, engineering design service, and construction inspection/ management services for transportation, roadway and municipal drainage construction in the unincorporated area of Salt Lake County. It also provides construction inspection/ management services for flood control and water quality projects Countywide. Additionally, permit administration, traffic calming and safer sidewalk programs are managed for the unincorporated area of Salt Lake County. New development plans and subdivisions are reviewed for compliance with design standards, codes and ordinances.

Flood control and water quality programs provide engineering design services for the construction of drainage and flood control facilities. Operation and maintenance of all flood control dams, basins, pump stations, diversion structures, storm drains, and canals are principal services. Additionally, the Division manages the area-wide Water Quality Management Plan and administers use permits and regulatory programs.

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 December 31, 2012. 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.



BEN McADAMS
Salt Lake County Mayor

Russ Wall
Public Works and Regional
Development Department Director

Patrick W. Leary
Township Executive

**ENGINEERING AND
FLOOD CONTROL
DIVISION**

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Division Director

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June 6, 2013

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

Dear Mr. Hawkins:

In regards to the recent audit completed of the Engineering and Flood Control Division, a management response is included below for each finding. This letter supersedes our original management response dated May 15, 2013. Since that time, the Auditor's Office released a revised audit report dated May 23, 2013. The responses below were included in the original management response unless otherwise noted.

Finding # 1 - Master balance sheets were not used.

Implemented. In the past, we have used reports generated in our cash receipting software, FC Permits, as a substitute for the various forms required by Policy #1062. As a result of the audit, we have implemented using a Master Balance Sheet to summarize daily collections as of April 23, 2013. The Division Director or Engineering Section Manager will review and sign each Master Balance sheet.

Finding # 2 - Daily transactional receipts could be altered, reprinted, and/or deleted.

Implementation in process. Under the direction of the Division Director, we are in the process of replacing the cash receipting software, FC Permits, with Adobe LiveCycle. As we implement LiveCycle, the appropriate user rights will be assigned to cashiers and supervisors in order to maintain a strong internal control environment. We hope that LiveCycle will be implemented by January 1, 2014, but this will depend on coordination efforts with Planning and Development Services and the consultant.

Finding # 3 - Internal controls over payments received through the mail were not adequate.

Implemented. In the past, management has instructed staff to open the mail with two persons present. For the time period June 1, 2012, to December 31, 2012, the mail log shows that mail was opened under dual control 75% of the time. Due to staff availability, it is sometimes difficult to have two persons available to open the mail. Division management will continue to emphasize the importance of opening the mail under dual control.

Additional Management Response - June 6, 2013

We provided a copy of the 2012 Mail Log showing the mail was opened using dual control. However, Auditor management indicated that finding #3 would not be revised. The log initially reviewed by the Auditor was for the first few months of 2013, although documents reviewed for other areas of the audit were for the 2012 time frame.

At the beginning of 2013, the office moved away from using a hard copy mail log to using a spreadsheet to track payments received in the mail and in person. Audit Management indicated to us the Auditor's notes showed that two of our staff stated in interviews that mail is opened by one person. However, the front desk staff misunderstood that they needed to continue to open the mail with two individuals and include both sets of initials on the log even though the format of the mail log changed. Management has reminded the front desk staff to open the mail with two individuals present. Front desk staff is now including the initials of both individuals who open the mail on the mail log spreadsheet.

Finding # 4 - Deposits were not always made within three days of receipt.

Implemented. The audit report is vague in describing the condition of this finding. The report states that "...we noted **multiple** deposits made more than three days after payment was received." According to Government Auditing Standards, "the Yellow Book," section 4.29, "Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures..."

Emphasis has been placed on depositing receipts within 3 days since June 2012 when our current Fiscal Manager started in the Division. The Fiscal Manager will continue to emphasize the importance of depositing funds within 3 days.

Additional Management Response - June 6, 2013

We appreciate the revision to the report which gives the reader perspective as to the population of deposits reviewed and the number of deposits that were made more than three days after receipt.

Finding # 5 - The controlled asset inventory list showed the physical location of numerous controlled assets as unknown.

Implementation in process. Again, the description of the condition for this finding is vague. By stating that the location of “**numerous**” controlled assets was “unknown” does not give the reader any perspective regarding the finding.

By August 1, 2013, under the direction of the Division Property Manager, the controlled asset list will be reviewed and updated.

Additional Management Response - June 6, 2013

Although the population of controlled assets examined was not added to the audit report, we appreciate the revision giving the reader perspective as to the number of assets on the list that the physical location was “unknown,” or “missing.”

Finding # 6 - A subordinate staff member approved timecards for higher level staff.

Implementation in process. By June 15, 2013, the Public Works Department Director will make a decision as to who will approve the supervisor’s timecard.

Finding # 7 - Over/Short amounts were not generated by the software application nor manually entered on MPF Form 3A.

Implemented. As of April 23, 2013, we are using a Master Balance Sheet that includes a comparison of the cash count to recorded receipts in order to determine an over/short amount.

Finding # 8 - Checks were not restrictively endorsed upon receipt.

Implementation in process. Checks have not been endorsed when the mail is opened because some checks are deposited into an Engineering depository account and other checks are delivered to Mayor Finance to process and deposit into a Mayor Finance depository account. We do not have a stamp to endorse the checks that are taken to Mayor Finance. However, we are in the process of obtaining an endorsement stamp for the Mayor Finance account.

For checks that are deposited into the Engineering depository account, front office staff will be trained by June 15, 2013, by the Office Manager, to endorse those checks at the time the mail is opened. Once the Mayor Finance endorsement stamp is received, front office staff will also endorse those checks at the time the mail is opened.

Finding # 9 - The controlled asset inventory form used did not follow Countywide policy procedures.

Implementation in process. By August 1, 2013, under the direction of the Division Property Manager, the controlled asset list will be reformatted to include the information in Exhibits 3 and 4 as required by Policy #1125.

Finding # 10 - The software inventory list on file was not current.

Implementation in process. By September 1, 2013, under the Direction of the Division Director, the software inventory list will be updated.

I appreciate the Auditor's Office, specifically Todd Livingston, for evaluating our internal controls and making recommendations to improve our control environment. If you have any further questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott R. Baird".

Scott R. Baird, P.E.
Division Director

Cc: Patrick Leary
Russ Wall
Larry Moller
Amy McCormick

SRB/am