

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



An Audit of the Key Controls of
Youth Services Milestone Housing Program

October 15, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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October 15, 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 Youth Services Milestone Housing Program

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Youth Services Milestone Housing Program 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 Youth Services Milestone Housing Program and the cooperation from Elizabeth Bayler, Yanping Ding, Jenny Lo, Jude Schmid, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Youth Services Milestone Housing Program 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 Brenda Nelson MBA, CISA
Sr. Deputy Auditor

cc: Pat Berckman, Division Director
Elizabeth Bayler, Administrative and Fiscal Manager
Yanping Ding, Department Fiscal Manager
Jude Schmid, Program Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Youth Services Milestone Housing Program. 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

Youth Services Administration and Management overseeing the Milestone Housing program have put into place key internal controls for managing public funds, safeguarding public assets, accessing sensitive information, and payroll reporting. The cash receipting risk related to voids was considered minor and would not be expected to result in material loss. Findings related to accounts receivable and proper segregation of duties were more significant and represent greater potential losses, especially as the program continues to expand in size. A report of the last audit of Youth Services was released to the public in August 2008.

Findings and Recommendations

Finding # 1 - Separation of duties and other controls over billing and receipt of payment were not adequate.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 5.4 states:

"The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payments. In the event that staffing levels prevent such a segregation of duties, a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

On a regular basis the Program Manager and/or case managers met with each client in the Milestone Housing Program. At that time the amount the client owed, their progress in the program, and their financial situation were reviewed. Clients then made full or partial rent payments. Milestone Housing Program staff accepted rental payments and issued the client a manual receipt. If a partial payment was made, the balance of rent owed was noted. Account ledgers were maintained in Excel. The Program Manager and/or case manager handled all billing, receipt of funds, granting and approval of amounts waived, and tracking of payments.

Recommendation

We recommend that Youth Service assign billing, receipting of payments, and posting of payments to separate individuals.

In the event staffing levels prevent such a segregation, we recommend that a supervisor, or second responsible employee review and sign the monthly reconciliation.

Finding # 2 - No aging reports or accounts receivable reconciliation reports were on file.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Collection," Section 5.5 states:

"Aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner. An aged analysis of accounts receivable ledger balances (aging schedule) shall be prepared each month."

Section 5.3.2 states:

"The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step."

Youth Services Case Management Software (YSCM) was used by Milestone Housing Staff to enter client payments and amounts outstanding. The software did not have the ability to generate an accounts receivable aging or other report that indicated how much was outstanding. In addition, no comprehensive reconciliation of the accounts receivable starting balance, plus rent due for that month, less amounts waived and/or paid was completed.

When accounts receivable are not included on an aging report and reconciled on a monthly basis, management may be less aware of amounts outstanding. Amounts may be waived and/or errors may occur without oversight. Misappropriation of funds may occur without detection.

Recommendation

We recommend that Youth Services consider using software to automate tracking of amounts owed and that a monthly aging report be generated.

We recommend that the Accounts Receivable beginning balance be reconciled to the ending balance on a monthly basis.

Finding # 3 - A voided transaction was not handled in accordance with Countywide policy.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state:

"...The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution... A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void."

Youth Services took over the Milestone Housing Program and began collecting rent in June 2012. At the time of our fieldwork, less than 50 receipts had been issued. We noted one receipt that was marked "void" but the cause of the void was not documented and the receipt was not signed by a supervisor nor the cashier.

When voids are not handled in accordance with Countywide policy, there is a greater risk they will be used to conceal misappropriation of funds.

Recommendation

We recommend that both the voided receipt and original customer receipt (if available) be retained, marked "void," and signed by the cashier.

We recommend that the reason for the voided transaction be documented on the face of the receipt or on a void form.

We recommend that a supervisor review and sign all voided transactions.

Additional Information

Background

Youth Services Milestone Housing Project is a transitional housing program for young adults, ages 18 to 22, that are facing homelessness in Salt Lake County. Youth Services leases two apartment houses, located in West Valley City and Sandy, which they rent to participating youth. The program is staffed by one Program Manager, two case managers and one part time house manager. Program capacity is currently ten youth, but is expected to grow in size with the acquisition of a \$200,000, 5-year federal grant from the Administration for Families and Youth.

Youth Services took over the program in 2012. The first deposits of rent and utilities from clients were deposited in June, with a total of \$5,600 deposited by the end of December. Client's are eligible to receive incentive payments for meeting program goals, such as attending a workshop by the Utah Youth Mentor Program. In addition, clients that meet all program goals and that are up-to-date on their rent receive a rebate when they graduate of \$75 for each month they were in the program. Because youth in the program do not typically have a checking account, 95 percent of the time rent and utilities are paid in cash, which carries inherent risks.

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.

Management response to findings in this report, when received, will be attached as Appendix A.



October 11, 2013

Roger K Larsen
Audit Division Director
Salt Lake County Auditor
2001 South State Street N3300
Salt Lake City, Utah 84114-4575

RE: Audit of Salt Lake County Youth Services Milestone Housing Program

Dear Roger:

Following is the Division of Youth Services response to the Key Control Audit conducted by your office and the findings noted in the report dated July 29, 2013.

Finding #1- Separation of duties and other controls over billing and receipt of payment were not adequate.

The Milestone Program has three administrative employees: a Program Manager, a Program Coordinator and a Case Manager. Due to such limited staffing the Program Coordinator and the Case Manager both meet with the clients on a regular basis to conduct reviews of progress, receive rental payments and issue manual receipts to clients. They are also responsible to post the payments received for clients. The money is then transferred to the Accountant who signs receipt as received.

The Division of Youth Services will implement a process wherein the Accountant will review the amounts received on a monthly basis and reconcile with the amounts posted in the account ledgers in Excel to ensure accuracy and legitimacy. The ledgers for those clients making payments in that month will then be printed and signed by the Accountant.

Finding #2- No aging reports or accounts receivable reconciliation reports were on file.

All money received through the Milestone Program is deposited through Mayor Finance to a dedicated revenue code within the Division of Youth Services budget. The deposits to this line item are verified against the deposits made for accuracy. The Division of Youth Services will implement a new step wherein the Accountant will reconcile monthly deposits made with the ending balance of this line item and the account ledgers to ensure that all amounts posted to the ledgers are recognized as deposited.

No aging reports are prepared as any amounts outstanding could be waived in light of the potential homeless status of the clients in this program and the employees of this program have full authority to waive any or all portions of amounts requested based on the individual circumstances of the client. There would not be any intention of attempting to receive outstanding amounts when

the client leaves the program. However, the Division of Youth Services will implement a step to indicate that the amounts have been waived in the account ledgers to assist the Accountant in the reconciliation process.

We would respectfully disagree with the risk level of "Moderate" for this finding as any amounts shown as outstanding are within the full knowledge of the management of this program due to the minimal number of staff. In addition, the resulting action of a participant in this program not complying with any request for payment that is not waived due to circumstance by the program employees would be expulsion from the program and again there would be no intention to recoup outstanding amounts. The recommendation to run a monthly aging report would be of no value as outstanding amounts are not due billed. We would consider the risk level to be "Low" for this finding.

Finding #3- A voided transaction was not handled in accordance with Countywide policy.

The Fiscal Manager or direct supervisor of the employee voiding the receipt will review, document the reason for and sign all voided receipts going forward.

Thank you for your assistance and support. Please feel free to contact us with any questions or concerns.

Sincerely,



Pat Berckman
Division Director

Cc: Elizabeth Bayler, Fiscal Manager
Roger Gisseman, Youth Services Associate Director
Jude Schmid, Program Manager Milestone Housing Program