

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



An Audit of the Key Controls of  
Youth Services Administration

October 16, 2013

**GREGORY P. HAWKINS**

SALT LAKE COUNTY AUDITOR

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October 16, 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 Administration

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Youth Services Administration 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 Administration and the cooperation from Elizabeth Bayler, Yanping Ding, Jenny Lo, Jim Reeser, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Youth Services Administration 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: Elizabeth Bayler, Administrative and Fiscal Manager  
Yanping Ding, Department Fiscal Manager  
Pat Berckman, Division Director

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## Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Youth Services Administration. 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 has put into place key internal controls for managing public funds, safeguarding public assets, software licensing, accessing sensitive information, and payroll reporting. In some cases, internal controls were found to exceed those required by Countywide Policy, such as requiring an approved purchase order prior to spending petty cash. We commend management for those efforts.

However, some risks and areas of non-compliance, including aspects of cash receipting and depositing, controlled assets and petty cash, were identified. Most findings were minor and would not be expected to result in the material loss of County assets. Risks related to inadequate controls over checks received in the mail and funds transferred between employees without adequate documentation have a higher likelihood of leading to loss of County property. A report of the last audit of Youth Services was released to the public in August 2008.

## Findings and Recommendations

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***Finding # 1 - Signatures acknowledging amounts transferred between employees were not obtained.***

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**Risk Level: High**

Countywide Policy #1062 "Management of Public Funds," Section 3.8.1.1 states:

"If prepared manually on MPF Form 3A, or similar form, the cash balance sheet should be signed by the cashier for each cash register or location where cash is accepted. If a cashier is not required to balance their individual cash drawer, an MPF Form 7A, Fund Transfer Receipt, or similar form shall be completed to document the transfer of funds to the employee performing the balancing procedure."

Security disks were assigned to individuals who worked or volunteered at Youth Services, to restrict their access to certain areas. Temporary employees, volunteers and merit staff that lost 3 or more disks were required to put down a \$10 deposit on the disk. Receipts for security disk deposits were issued by the Fiscal Coordinator and the funds were taken to the Accountant. The Accountant received a copy of the receipt, but no fund transfer receipt was created. A similar situation was found in the After School Program, where tuition fees were submitted to the Accountant by that program manager without documentation. Additionally, no fund transfer form was used for occasional payments received for copies of client files.

When accountability for funds is not documented, funds are at a greater risk of being lost, stolen, or diverted for personal use.

### ***Recommendation***

We recommend an MPF 7A "Fund Transfer Receipt," similar form, or process be used to document all transfers of funds between staff.

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### ***Finding # 2 - Controls over checks received through the mail were not adequate.***

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#### **Risk Level: High**

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."

In 2012, Youth Services deposited \$264,847 in cash and checks. The majority of the dollar amount deposited resulted from large dollar grant checks, ranging from \$1,000 to over \$50,000, that were received in the mail. Checks were taken by the front desk receptionist to the appropriate member of Youth Services administrative staff, usually the Accountant, unopened. The Accountant opened the checks alone and placed them in the safe until she prepared the deposit. Mail that arrived over the weekend sat on the receptionist desk until Monday.

Funds that are not appropriately safeguarded and documented are at greater risk of being lost or stolen.

***Recommendation***

We recommend that mail containing checks be safeguarded over the weekend and whenever unattended.

We recommend that checks received in the mail be opened and recorded on a log in the presence of two staff members.

We recommend that documentation be created and signed whenever funds are transferred between employees.

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***Finding # 3 - Not all funds collected were deposited within three days of receipt.***

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**Risk Level: Moderate**

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."

The Youth Services Accountant accumulated funds brought to her by Youth Services staff or received in the mail and made periodic deposits through the Mayor's Office-Financial Administration. Because the date checks were received in the mail was not logged and because After School Program payments were not accompanied by a receipt, we were not able to calculate days to deposit for all receipts. However, using the date on 25 receipts issued for security disk deposits, we calculated that an average of 12 days lapsed between the receipt date and the deposit date. This figure is likely representative of all cash and checks collected and is consistent with the Accountant's estimation that deposits were made approximately every three weeks.

The Accountant explained that they waited to complete a deposit until sufficient funds had accumulated. The Accountant stated that the time spent taking funds for deposit with the Mayor's Office on a more frequent basis could be used more efficiently on other tasks.

However, funds maintained on hand are at greater risk of being lost or stolen. In addition, interest is lost that would otherwise be accrued.

***Recommendation***

We recommend that funds be deposited daily wherever practical and in no case more than three days after receipt.

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***Finding # 4 - Manual receipt books and receipt numbering was not tracked.***

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**Risk Level: Moderate**

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."

Manual receipt books were used for receipting security disk deposits, payments for copies of patient files, and payment of rent in connection with the Milestone Housing Program. Amounts collected totaled approximately \$7,000 in 2012. The receipt books that had been issued, including each book's numbering sequence, were not tracked and monitored.

Logging and tracking of receipt books and receipt numbering enables individuals who prepare and review deposits to determine if receipts were used sequentially and whether all receipted amounts were submitted for deposit. The absence of this control means that theft of funds may be more likely to occur without detection.

***Recommendation***

We recommend that receipt books and receipt numbers issued to cashiers be recorded on a log.

We recommend that persons responsible for preparing and reviewing deposits ensure that receipts are used sequentially and that they follow up whenever gaps are detected.

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***Finding # 5 - Not all "Controlled Asset Form-Employee" were on file.***

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**Risk Level: Moderate**

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... 'Controlled Asset Inventory Form-Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual."

Fifteen employees in the administrative area of Youth Services had been assigned assets. Four out of the fifteen had not submitted a signed "Controlled Asset Inventory Form-Employee" at the time of our fieldwork. One employee submitted a signed form during the course of our fieldwork.

Failure to establish employee accountability through use of a signed form increases the risk of asset misappropriation and loss.

***Recommendation***

We recommend that Youth Services continue their efforts to obtain a signed "Controlled Asset Form-Employee" from all employees with assigned assets.

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***Finding # 6 - Not all assets were included on signed asset inventory forms.***

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**Risk Level: Moderate**

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."

A comprehensive asset inventory was performed during the Spring of 2012. In addition, Youth Services requires employees to sign a statement listing assets currently assigned to them. Signed statements were observed on file with the Information Systems Manager. The controlled asset database contained 708 assets, located throughout Youth Services. Of those assets, 102 had not been assigned to an individual employee and had not been signed for by the property manager using "Controlled Asset Inventory Form - Organization."

When all assets are not included in the annual, signed inventory, accountability is not established, records are less accurate, and assets are more susceptible to conversion to personal use.

***Recommendation***

We recommend that all items inventoried be documented and signed for using either "Controlled Asset Inventory Form – Organization" or "Controlled Asset Inventory Form – Employee."

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***Finding # 7 - Voids were not handled in accordance with Countywide Policy.***

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**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. All voided receipts will be attached to the daily cash balance sheet for audit purposes."

We examined manual receipts issued for security disk deposits from June 2012 through December 2012. We found 16 receipts were issued and two receipts were voided. One voided receipt was not marked "void" across the face. In addition, no explanation was written on either receipt, and the receipts were not signed by the employee and the employee's supervisor.

When voids are not closely monitored and handled properly, they are more likely to be used to conceal misappropriation of funds.

### ***Recommendation***

We recommend that an explanation be recorded on the face of all voided receipts.

We recommend that the employee completing the void, and a supervisor not involved with the transaction, review and sign the voided receipt.

We recommend a copy of all voids be included with daily deposit documentation.

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### ***Finding # 8 - The authorized petty cash fund balance was excessive.***

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#### **Risk Level: Low**

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.1.4 states:

"The requested imprest amount should be sufficient to provide adequate operating funds for 2 months."

A \$500 petty cash fund was maintained at Youth Services Administration. During 2012, the account was reimbursed a total of \$906, representing average monthly expenditures of \$75. Although the account was reconciled, and a replenishment request was made on a quarterly basis, the funds on hand are sufficient for over 6 months of expenditures.

The Fiscal Manager explained that petty cash is tightly controlled. Staff is encouraged to use the purchasing system or purchasing cards wherever possible. The result has been a decreased reliance on petty cash.

Excess funds are at greater risk for misappropriation. In addition, interest is lost on amounts that could be deposited.

***Recommendation***

We recommend that Youth Services review and reduce the amount of petty cash fund balance.

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***Finding # 9 - The Master Balance Sheet did not include a calculation of overages and shortages, and no over/short log was used.***

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**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"

Section 3.8.2 states:

"...any daily shortages or overages [should be] recognized and recorded on MPF Form 3A, Cash Balance Sheet, and on MPF Form 11, Cash Over/Short Log."

The Master Balance Sheet prepared by the Accountant included amounts collected from all sources, and indicated if payment was made by cash or check. Each Master Balance Sheet was reviewed and signed off on by the Fiscal Manager. However, there was no comparison of the amount collected per manual receipt records, to amounts actually deposited, and any resulting overage or shortage, on the Master Balance Sheet form in use. In addition, no log of overages and shortages was maintained.

Failure to calculate and document "over/ short" or "no-difference" amounts between the cash count and recorded receipt totals creates a greater risk of County funds being lost or stolen without detection.

***Recommendation***

We recommend that Youth Services modify the master balance sheet currently in use to reconcile receipted revenue to the actual deposit and calculate any overages or shortages.

We recommend that Youth Services maintain a monthly over/short log, by cashier.

## **Additional Information**

### **Background**

Youth Services provides shelter, counselling and substance abuse services, after school programs, and more, to children and youth in need throughout Salt Lake County. Youth Services Administration provides administrative support, accounting functions, and oversight for the various services and 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.

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 Administration

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 31, 2013.

*Finding #1- Signatures acknowledging amounts transferred between employees were not obtained.*

Since the time that the Key Control Audit was conducted, a new process has been implemented as follows:

- Each person who may be in a circumstance to receive money has been assigned a three-part cash receipt book with consecutively numbered receipts.
- When the money is received from the client an original, numbered receipt is issued.
- The accountant will sign the receipt book and retain part two of the receipt when receiving the funds.
- Part three of the receipt is retained in the book or the client's file by the person who originally received the funds for future reference

We would respectfully disagree with the risk level of this finding as "High". The recommended use of a transfer form for this purpose would not relieve the possibility of funds being lost, stolen or diverted for personal use at the initial level of the receiving of funds from a client or employee. Therefore, we would consider the risk to be "Moderate" at best in consideration of no record of receipt of the funds being documented from employee to employee.

*Finding #2- Controls over checks received through the mail were not adequate.*

Since the Key Control Audit was conducted, the majority of money received by the Division of Youth Services is now received via electronic funds transfers (EFTs) avoiding the receipt of checks in the mail.

Youth Services reception staff does not open mail, but simply distributes it as addressed. This does not constitute a “transfer of funds,” as the reception staff is not aware of what is enclosed. Checks received in the mail are opened by the Accountant and the Fiscal Manager or the Accountant and the Fiscal Coordinator and are logged as received on the monthly closing expense sheet.

Mail that arrives over the weekend (Saturday) is delivered to the Juvenile Receiving Center, the only public entrance on Saturday. The staff there has historically taken the mail to the reception desk at the main entrance. Youth Services is exploring the use of a secured box as a holding place for the weekend mail.

We would respectfully disagree with the risk level of this finding as “High”. Since there is no actual transfer of funds between employees, the recommendation to document funds being transferred does not apply. In addition, the implication that since the Accountant opened the checks alone and then put them in the safe provided opportunity to convert them to personal use would be countered by the fact that all large dollar grant payments received were anticipated due to the reimbursement request submitted to the granting agency and amounts not noted as received would be investigated by the Fiscal Manager with the granting agency for check issuance and/or deposit information. This is the double check to ensure payments are received. We would consider this finding a risk level of “Moderate” at best.

*Finding #3- Not all funds collected were deposited within three days of receipt.*

Deposits have been historically made when a sufficient amount to justify the trip from the Youth Services main campus to the Government Center building was obtained. We will make every effort going forward to make deposits within 3 days of receiving funds.

We would respectfully disagree with the risk level of “Moderate” for this finding as all deposits are kept secured in the safe in the Accountant office no matter what the amount of time prior to deposit is. We would consider the risk level to be “Low” for this finding.

*Finding #4- Manual receipt books and receipt numbering was not tracked.*

The receipt books now being issued to all who may have a circumstance to receive money are currently being logged and issued with a signature and any remaining books are kept in the safe in the Accountant office. The logs contain the numbering sequence for each book as well.

*Finding #5- Not all “Controlled Asset Form-Employee” were on file.*

The Division of Youth Services is diligent in obtaining a signed Controlled Asset Form-Employee from all employees of Youth Services. A controlled

asset inventory software including a barcode system is utilized to ensure accuracy. The annual internal controlled asset audit and review which includes the signing of this document was in process at the time of the Key Control Audit. This process is time consuming to audit our inventory of controlled assets and obtain the signed forms due to the sheer volume of assets and number of Youth Services' campuses. All forms have been received from employees responsible for controlled assets.

In addition, we respectfully disagree with the risk level of this finding as "Moderate" due to the fact that all assets are in the inventory software system and assigned to an individual there. The lack of a current signed Controlled Asset Form- Employee did not in any way indicate a lack of data to indicate who the asset was assigned to or a lack of control over the assets within the division as this information is easily obtained from our software system. In fact, during the Key Control Audit we were several times commended for our use of a software system to track controlled assets and were asked if we could be used as an example. Also, this same exact finding was listed in other of the 7 Key Control Audits for the Division of Youth Services conducted and was indicated to have a risk level of "Low". The status should be one of "Low" at best.

*Finding #6- Not all assets were included on signed asset inventory forms.*

The Division of Youth Services had maintained some assets as being able to be "checked out" to employees or available for all employee use such as copy machines. These assets had not been assigned to an individual employee's name at the time of the Key Control Audit but were maintained in inventory in the software system utilized to track controlled assets and were the responsibility of our Information Systems Manager. Since that time all assets in this group have been assigned to that individual employee.

In addition, we respectfully disagree with the status of this finding as "Moderate" due to the fact that all assets are in the inventory software system. The lack of a current signed Controlled Asset Form- Employee did not in any way indicate a lack of control over the assets within the division. In fact, during the Key Control Audit we were several times commended for our use of a software system to track controlled assets and were asked if we could be used as an example. The status should be one of "Low" at best.

*Finding #7- Voids were 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.

*Finding #8- The authorized petty cash fund balance was excessive.*

While the use of the County purchasing system or purchasing cards are preferred and encouraged, the petty cash fund is available for emergency purposes. Petty cash is tightly controlled. There is no way to predict the nature of an emergency. In Youth Services' history, emergencies can vary from needing to provide medication to food for a restricted diet to basic clothing. The petty cash fund assigned to the Administration programs is for emergency or normal petty cash purposes and is, in reality, utilized by all programs if the petty cash custodian assigned to any one program is out or unavailable. At this time, a reduction in the amount of the fund would be imprudent given the dramatic fluctuations in need. Youth Services is evaluating the implementation of a purchasing card for this custodian. Should this be determined to be in the best interest of serving clients, a reduction in the amount of the fund may occur.

*Finding #9- The Master Balance Sheet did not include a calculation of overages and shortages, and no over/short log was used.*

The Master Balance Sheet that is noted in this finding is the "deposit slip" that is prepared for the deposit to be taken to Mayor Finance. It is noted that we should have an over/short log and that the amount collected was not compared to a manual receipt record. Since we do not actually have cashiers or cash registers, the Master Balance Sheet is prepared based on what was actually received. The need for an over/short log does not seem applicable based on our business operations. The types of revenue received are as follows:

- Afterschool registration
- Grant payments
- Security disc deposits
- Payments for copies

In the cases of the afterschool registrations, security disc deposits and payments for copies, no amount has been invoiced and no amount is anticipated prior to receiving the money. Business practice is only the exact amount is accepted for security discs and copies and registration for the afterschool program is optional. The grant payment amounts to be received have been noted in our monthly closing expense sheet as being anticipated based on the monthly or quarterly billings submitted for reimbursement to the granting agencies. The payments received for these are compared to the amounts noted as the checks are opened by the Accountant and a second employee as previously mentioned. There is no data or document to compare the deposit to in order to state over or short.

Without further clarification on the intention of the recommendation the current procedure will continue to be followed.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Pat Berckman". The signature is written in a cursive style with a large initial "P" and "B".

Pat Berckman  
Division Director

Cc: Elizabeth Bayler, Fiscal Manager  
Roger Gisseman, Youth Services Associate Director