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REPORT NO. 01-609

June 25, 2001

Raylene G. Ireland, Executive Director
Department of Administrative Services
3120 State Office Building
Salt Lake City, UT 84114

Dear Ms. Ireland:

We have performed the procedures described below to certain aspects of the Department of Administrative Services' (Department) internal control for the period of July 30, 2000 through January 31, 2001. Procedures performed for the Department covered all divisions except for Surplus Property and the Division of Facilities Construction and Management. Procedures that were limited to certain divisions are identified with the applicable divisions. The purpose of these procedures is to assist the Department in evaluating its internal control. The procedures performed were as follows:

1. We reviewed internal control over the cash receipting procedures at the Fleet Operations Division and the ITS Division. We selected and tested samples of cash receipts transactions for these two divisions.
2. We tested the Department's cash accounts.
3. We tested a sample of the Department's cash disbursements for propriety, reasonableness, and compliance with internal and State purchasing policies.
4. We reviewed the Department's compliance with certain laws, policies and procedures regarding personnel and payroll.
5. We reviewed and tested the internal control over fixed assets at the Division of Finance and the Archives Division and tested the completeness and accuracy of the fixed assets listings.
6. We reviewed internal control and compliance with certain policies and procedures for services contract management at the ITS Division and the Purchasing Division.

7. We reviewed the internal control over inventory at the ITS Division and the General Services Division.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that Finding 1 is a significant weakness to the Division of Information Technology, and that Findings 4 and 5 are significant weaknesses to the Archives Division. If these weaknesses are left uncorrected, an unacceptable amount of errors or misappropriations could occur without detection.

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the Department's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the Department's internal control, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than this specified party.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the Department during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Stan Godfrey, Audit Director, at 538-1356.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: David Lamb, Financial Director, Executive Director's Office
Kim S. Thorne, Director, State Division of Finance
Gwen Anderson, Director, Office of State Debt Collection
Ken Hansen, Director, Administrative Rules
Jeff Johnson, Director, State Archives
Steve Saltzgeber, Director, Fleet Services
Alan F. Edwards, Director, Risk Management
Leon Miller, Director, Information Technology Services
Doug Richins, Director, Purchasing and General Service

DEPARTMENT OF ADMINISTRATIVE SERVICES
FOR THE PERIOD JULY 1, 2000 THROUGH JANUARY 31, 2001

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DEPARTMENT OF ADMINISTRATIVE SERVICES

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JULY 1, 2000 THROUGH JANUARY 31, 2001

DIVISION OF INFORMATION TECHNOLOGY

1. SEPARATION OF DUTIES WEAKNESS – INVENTORY (Significant Weakness)

The Division of Information Technology (ITS) Radio Shop Secretary and the Telecom Warehouseman are responsible for ordering, receiving, and recording inventory purchases for their respective locations. Inadequate separation of duties occurs when the same individual has custody of assets and access to the accounting records with no independent review. These duties should be separated to prevent theft or misuse of inventory without detection.

Recommendation:

We recommend that ITS separate conflicting responsibilities currently held by the Radio Shop Secretary and the Telecom Warehousemen or implement a compensating control, such as an independent review of the conflicting responsibilities.

ITS Response:

We concur and are looking at establishing some compensating controls.

2. CASH RECEIPTING WEAKNESSES

During our cash receipting testwork at ITS, we noted the following weaknesses:

- a. **Deposit Records Not Reconciled to the Check Receipting Log:** ITS is not reconciling the original check receipting log and the daily deposit records. This reconciliation should be performed by someone who does not have access to checks in order to ensure that all checks received by ITS are properly deposited and recorded in FINET and to detect a misappropriation of funds.
- b. **Inadequate Controls over Employee Reimbursements:** We further noted that ITS does not record employee reimbursements on its check log. One of 25 receipts tested was for an employee purchase of a bus pass. A log is maintained of all employees who paid for a bus pass and their related sticker number; however, no other information is documented concerning the receipts from employees. As a result of inadequate documentation of employee reimbursements, we could not determine whether all receipts for bus passes were properly deposited and recorded. Since employee reimbursements are generally not expected, maintaining adequate receipt documentation, including receipt date and payment type (cash/check), and having an independent person reconcile deposit records to the receipt documentation are necessary procedures to ensure funds are properly deposited and recorded.

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- c. Noncompliance with State Depository Requirement: Ten out of 25 receipts tested were not deposited within three business days of receipt as required by *Utah Code 51-4-1*. ITS deposits receipts after the FINET cash receipt transaction has been approved, which can take several days if a receipt needs to be researched or has not been billed yet. Timely deposit of receipts is necessary to comply with State law, to ensure efficient management of funds, and to minimize the risk of misappropriation of funds.

Recommendation:

We recommend that ITS:

- a. **Perform an independent reconciliation between the check receipting log and daily deposit records.**
- b. **Maintain adequate receipt documentation of employee reimbursements, such as receipt date and payment type (cash/check), and perform an independent reconciliation between receipt and deposit records.**
- c. **Deposit all receipts within three business days, in accordance with State law.**

ITS Response:

- a. *ITS has implemented this control.*
- b. *We concur and are in the process of correcting the problem.*
- c. *We agree and are implementing steps to rectify this shortfall.*

3. SERVICE CONTRACT MANAGEMENT WEAKNESSES

During our review of 15 service contracts at ITS, we noted one contract had been terminated effective January 31, 2001 but was still on the contract listing as active. Failure to remove terminated contracts from the contract listing could result in inappropriate expenditures.

Recommendation:

We recommend that ITS update its contract listing in a timely manner when contracts have been terminated.

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ITS Response:

We concur that one contract cited was not removed timely. However, while we feel we have good control over our contract listing, we still continue to strive to insure that all contracts are removed when appropriate.

ARCHIVES DIVISION

4. INADEQUATE SEPARATION OF DUTIES OVER FIXED ASSETS (Significant Weakness)

The Budget and Accounting Officer at the Archives Division has fixed asset record-keeping duties, custody of assets, and also performs a periodic inventory of fixed assets. Finance policy FIACCT 09-08 requires that all fixed asset items be independently inventoried by someone without custodial or record-keeping duties. Failure to properly segregate these duties increases the opportunity for misuse or theft of fixed assets and could possibly cause a misstatement of fixed assets on the State's financial statements.

Recommendation:

We recommend the Archives Division assign an individual who has no custodial or record-keeping duties to perform the periodic inventory of its fixed assets as required by State Finance policy.

Archives Response:

We agree with the audit findings and recommendations. Someone has been assigned to manage this function in the proper manner.

5. INADEQUATE FIXED ASSET PROCEDURES (Significant Weakness)

During our review of fixed assets at the Archives Division, we noted the following weaknesses:

- a. Two out of 20 sample items traced from the asset to the fixed asset listing did not have proper State identification tags and could not be located on the fixed asset listings. Finance policy FIACCT 09-08 requires that all assets be properly tagged and recorded on the fixed asset listing. Failure to properly identify and record assets could result in the loss or misuse of fixed assets and the misstatement of fixed assets on the State's financial statements.

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- b. One out of 20 sample items traced from the fixed asset listing to the asset could not be located. Per review of supporting documentation, this asset had been surplused but was not removed from the fixed asset listing. Finance policy FIACCT 09-08 requires that assets no longer in the custody of the department be removed from the fixed asset system. Failure to properly remove surplused assets from the system could result in a misstatement of fixed assets on the State's financial statements.

Recommendation:

We recommend that the Archives Division:

- a. **Properly tag and record fixed assets on the fixed asset system in a timely manner as required by State Finance policy.**
- b. **Remove fixed assets for which it no longer has custody from the fixed asset system in a timely manner, as required by State Finance policy.**

Archives Response:

We agree with the audit findings and recommendations. We have set up procedures to tag fixed assets and to keep the inventory current within the fixed asset system.

6. **INADEQUATE DOCUMENTATION OF INCENTIVE AWARDS**

During our review of 25 bonuses and incentive awards for the Department, we noted one award from the Archives Division totaling \$175 which was not adequately documented. The Department Incentive Awards Policy and the Department of Human Resource Management (DHRM) policy R477-7-5(1)(b) state that all incentive awards or bonuses of \$100 or more must be documented, evaluated, and approved. This documentation is to be maintained in the division's individual employee files. Failure to adequately document bonus and incentive awards could result in misappropriation of State funds.

Recommendation:

We recommend that the Archives Division maintain adequate documentation of bonus and incentive awards as required by the Department and DHRM policies and procedures.

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Archives Response:

We agree with the audit findings and recommendations. A copy of all such awards and related documents will be placed in the division's individual personnel files.

EXECUTIVE DIRECTOR'S OFFICE

7. INADEQUATE DOCUMENTATION OF INCENTIVE AWARDS

During our review of 25 bonuses and incentive awards for the Department, we noted one award from the Executive Director's Office for \$300 which was not adequately documented. The Department Incentive Awards Policy and DHRM policy R477-7-5(1)(b) state that all incentive awards or bonuses of \$100 or more must be documented, evaluated, and approved. This documentation is to be maintained in the division's individual employee files. Failure to adequately document bonus and incentive awards could result in misappropriation of State Funds.

Recommendation:

We recommend that the Executive Director's Office maintain adequate documentation of bonus and incentive awards.

Executive Director's Office Response:

We agree. To remedy this deficiency the EDO has developed a form that will be filled out for all incentive awards of \$100 or more. This form will be signed by the Executive Director and placed in the employee's permanent personnel file.

DIVISION OF FLEET OPERATIONS

8. CASH RECEIPTING WEAKNESSES

During our cash receipts testwork at the Division of Fleet Operations we noted the following weaknesses:

- a. **Reconciliation of Deposits Back to Original Mail Log not Performed:** Fleet Operations is not reconciling bank deposits back to the original mail receipt log. Reconciling deposits back to the mail log is necessary in order to ensure that all receipts are properly recorded and deposited and to prevent and detect the misappropriation of funds. This reconciliation should be performed by someone who does not have access to cash/checks received.

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- b. Undocumented Check Transfers: One out of twelve receipts tested from the mail log could not be traced through the cash receipting process. Checks for other divisions are often received in error and transferred to the appropriate division after being recorded in the mail log. However, a transfer was not documented indicating the disposition of the check after it was recorded on the mail log. Transfers of receipts to other divisions should be documented in order to properly account for all receipts and to ensure they are handled appropriately.
- c. Noncompliance with State Depository Requirement: One out of 25 receipts tested was not deposited within three business days of receipt as required by *Utah Code 51-4-1*. The division deposits receipts at least once a week but this does not ensure compliance with the depository requirement. Timely deposit of receipts is necessary to comply with State law, to ensure efficient management of funds, and to minimize the risk of misappropriation of funds.

Recommendation:

We recommend that the Division of Fleet Operations:

- a. **Have someone independent of cash receipting duties perform a reconciliation of deposits back to the original mail log.**
- b. **Ensure all checks received and transferred to other divisions are adequately documented.**
- c. **Deposit all receipts within three business days, in accordance with State law.**

Fleet Operations Response:

- a. *We concur. An independent person has been identified to perform the reconciliation.*
- b. *We concur. This procedure has been defined and implemented.*
- c. *We concur. The division has implemented at least 2 deposits per week to eliminate this problem.*