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REPORT NO. 01-626

July 18, 2001

David Winder, Executive Director
Department of Community and Economic Development
324 South State Street, Suite 500
Salt Lake City, Utah 84111

Dear Mr. Winder:

We have performed the procedures described below to certain aspects of the Department of Community and Economic Development's (Department) internal control for the period July 1, 2000 through December 31, 2000. The purpose of these procedures is to assist the Department in evaluating its internal control. The procedures performed were as follows:

1. We reviewed the cash receipting and the cash disbursing (including recording and reconciliation) duties for all divisions in the Department for adequacy of separation of duties for internal control.
2. We reviewed the internal control over cash receipting procedures, including accounts receivable as applicable, at the Division of Business and Economic Development and the Travel Council. We also tested samples of cash receipt transactions at these areas.
3. We reviewed internal control over the Department's main bank account, specifically procedures concerning bank reconciliations and non-sufficient funds checks. We also reviewed controls over and counted petty cash funds at the Division of Business and Economic Development and the Travel Council.
4. We tested a sample of the Department's cash disbursements for propriety, reasonableness, and compliance with certain internal and State purchasing policies.
5. We reviewed the Department's compliance with certain laws and policies and procedures regarding personnel and payroll issues, such as nepotism, annual evaluations, compensation increases, bonuses, and incentive awards.
6. We reviewed the internal control over fixed assets at the Department and tested the completeness and accuracy of the fixed assets listing through a sample of fixed assets.

7. We reviewed the Department's services contract management including internal control and compliance with certain policies and procedures.
8. We reviewed compliance with State laws, policies, and procedures related to the Department's Industrial Assistance Fund. We also tested a sample of loan agreements to determine if the Department is properly monitoring compliance with the loan agreements.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that finding No. 1 through 6 are significant weaknesses to the related areas indicated on the table of contents. 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 management 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: Todd Hauber, Finance Director

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

FOR THE PERIOD JULY 1, 2000 THROUGH DECEMBER 31, 2000

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1. INADEQUATE CASH RECEIPTING CONTROLS – DBED & Travel Council

We reviewed the cash receipting procedures at the Division of Business & Economic Development (DBED) and at the Travel Council and noted the following:

- a. At DBED and the Travel Council, checks are not restrictively endorsed immediately upon receipt. This endorsement helps reduce the potential misuse of checks.
- b. At DBED, three of the six areas that have cash receipts do not maintain an initial record of the cash/checks received. At the Travel Council, pre-numbered invoices are filled out, but a copy is not kept as an initial record of cash/checks received before they are forwarded to the accounting tech for further processing. In addition, pre-numbered invoices used in over-the-counter sales at the Travel Council and some DBED areas are not reconciled to validated deposit slips by someone independent of the employee receiving the cash/checks. To ensure that all cash/checks are properly deposited, an initial record of all cash/checks received should be prepared. Then someone who does not handle the cash/checks should reconcile the initial record of cash/checks received to a validated deposit slip.
- c. Not all of the cash/checks received are properly safeguarded. In one instance at DBED, an envelope of cash was found in the desk drawer of an employee who no longer worked for the Department. No one knew why the cash was in the drawer. At DBED and the Travel Council, we also observed that some checks are placed in stacking trays or desk drawers until they are forwarded to the accounting tech who prepares the deposit. As long as this money is not secured, there is a greater risk that it will be lost or stolen. The risk is increased even more at DBED since they are not depositing cash/checks received within 3 business days of receipt as required by *Utah Code*, Section 51-4-1. Some of the cash/checks received are being held for a week or longer before being forwarded to the accounting tech for deposit.
- d. Cash receipts from the sale of publications and Olympic goods at DBED and miscellaneous merchandise (other than calendars) at the Travel Council are not reconciled to inventory records. For these publications and miscellaneous sales, no inventory records are kept. Reconciling expected receipts based on inventory records to actual deposits of receipts from inventory sales is a good way to determine if all receipts are properly deposited.

Recommendation:

We recommend that the Department of Community & Economic Development (the Department) ensure that all divisions:

- a. **Restrictively endorse all checks immediately upon receipt.**
- b. **Maintain an initial record of all cash/checks received, such as a mail log, pre-numbered receipts/invoices, etc. and have someone who does not handle cash/checks perform and document a reconciliation of the initial records of cash/checks to the validated deposit**

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slips. This reconciliation should verify that all cash/checks listed on the initial records of receipt are accounted for and would include a review of any voids or refunds for reasonableness.

- c. Keep all cash/checks in a locked safe, cabinet, desk, etc. with only those who handle the cash/checks having a key or combination to access the receipts, and forward all cash/checks to the accounting tech on a daily basis so they can be deposited in the bank within 3 business days of receipt.**
- d. Establish procedures to compare expected receipts based on inventory records to actual deposits of receipts from the sale of inventory items. Someone who does not have cash receipting responsibilities should perform this comparison.**

Department's Response:

We concur with the Auditor's findings and are establishing a department-wide policy with division specific procedures.

2. IMPROPER ESTABLISHMENT OF CHANGE FUND – Travel Council

Over-the-counter receipts at the Travel Council are not always forwarded directly to the accounting tech where they are deposited. Instead, a portion of the cash receipts is retained at the sales counter as a change fund for future over-the-counter sales. This not only violates the State's Accounting Policies and Procedures, FIACCT 05-23.2, but also violates good cash receipting procedures and controls (see finding No. 1 above). Keeping cash receipts at the sales counter could allow misuse of funds to occur without detection.

Recommendation:

We recommend that the Travel Council establish a change fund for over-the-counter sales in accordance with the State's Accounting Policies and Procedures, FIACCT 05-23.02.

Department's Response:

We concur with the Auditor's findings and are working to implement the recommendations.

3. UNTIMELY FINET ENTRIES AND NO CREDIT CARD POLICY

During our review of the November 2000 bank reconciliation, we noted the following:

- a. Transactions are not always recorded on FINET in a timely manner. The October credit card transactions for State History (totaling \$4,894.35) were not recorded on FINET until November**

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30, 2000, approximately one month after they were received. The October credit card transactions for Travel Council (totaling \$5,756.93) and the October and November credit card transactions for DBED (totaling \$571.00) were also included as reconciling items on the November bank reconciliation. There were several other non-credit card receipts (totaling \$165,408.38) that were shown as deposits in the First Security Bank account but were not recorded in FINET, resulting in reconciling items in the bank reconciliation. Recording transactions in FINET in an untimely manner not only complicates the reconciliation, but results in excessive time and the related cost for completion of the reconciliation.

- b. There is no written credit card policy regarding the acceptance of credit cards at the Department. The State's Accounting Policies and Procedures FIACCT 07-08.00 requires that an entity submit the agency's policies for accepting credit cards to State Finance. The lack of written credit card policies could contribute to the delays in recording credit card transactions.

Recommendation:

We recommend that the Department:

- a. **Record all transactions on FINET in a timely manner.**
- b. **Establish and submit a written policy regarding the acceptance of credit cards.**

Department's Response:

We concur with the Auditor's findings and are working to implement the recommendations.

4. WEAKNESSES IN THE USE OF PURCHASE CARDS

We tested 10 of the 69 purchase cards authorized by the Department and reviewed one monthly statement for each card. We noted the following weaknesses:

- a. One purchase card is still active four months after the card holder terminated employment with the Department. Another employee who is not named on the purchase card is using this card. The continued use of purchase cards that were previously issued to employees who have since terminated increases the risk of fraud by the terminated employee. In addition, there is no party held responsible for charges made on that card, which increases the risk of misappropriations, errors, or fraud.
- b. The charges on one purchase card statement were not approved by anyone other than the cardholder. Per the State Purchase Card Policy and Procedures manual, the cardholder's director must review and approve the purchase card log, which in most cases is the purchase card statement. In addition, the balance on another statement included three purchases totaling \$394 out of a total of 15 purchases totaling \$6,664 that had no supporting documentation. One

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other purchase included \$15.81 of sales tax. Government agencies are exempt from paying sales tax. These problems indicate that reviews and approvals of purchase card charges are not adequate. Charges that are not properly reviewed, approved, and documented increase the risk of misappropriation or fraud without detection.

Recommendation:

We recommend that the Department:

- a. Ensure that purchase cards are collected, cancelled, and destroyed immediately when the card holder terminates employment.**
- b. Require all purchase card logs or statements to be reviewed and approved by the purchase card holder's director. This review should ensure that every purchase has supporting documentation and includes only appropriate charges.**

Department's Response:

We concur with the Auditor's findings and are working to implement the recommendations.

5. FIXED ASSET ACCOUNTING WEAKNESSES

- a. The fixed assets inventory procedures are insufficient. The accountant sends asset listings to the asset custodians to perform the inventory. If the asset custodians do not return the asset listings, the accountant assumes the inventory was completed and no changes are needed in the asset records. However, with this method, there is no way to determine whether the inventory has actually been performed.

Also at two of the nine divisions, we found that the fixed asset inventory is performed by the fixed asset custodians. State Accounting Policies and Procedures FIACCT 09-08.11 states that the annual inventory of fixed assets should not be performed by individuals with fixed asset custodial and/or record keeping duties. Therefore, an independent employee should verify the existence of each fixed asset and return their portion of the fixed asset listing to the Accountant with evidence/documentation that they did actually confirm the existence of the fixed assets.

We found further evidence that the fixed asset inventory is inadequate during the course of our testwork. Four of 16 items we tested on the fixed asset listing are no longer at the Department. Also, one item was not properly tagged with a unique agency identification number. According to FIACCT 09-08.00, all fixed assets owned by the Department should be properly tagged to ensure that the asset can be tracked accurately on the fixed asset listing.

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- b. Three out of five sample items that had been deleted from the fixed asset listing did not have supporting documentation of their disposal, as required by FIACCT 09-02.10 and 09-02.11. When records are not maintained for fixed assets that are disposed of, errors and misappropriations of assets can occur without detection.
- c. The Department has not performed a monthly reconciliation of fixed asset transactions since June of 2000. Per FIACCT 09-08.10, each agency is responsible for reconciling capital expenditures per FINET with FINET Fixed Assets activity. This reconciliation should be performed monthly to ensure that all fixed assets are properly accounted for and are included on the fixed asset listing.

If unresolved, these problems could allow fixed asset errors or misappropriations to go undetected.

Recommendation:

We recommend that the Department:

- a. **Perform an annual fixed asset inventory in accordance with State Accounting Policies and Procedures FIACCT 09-08.00. This inventory should be completed by an employee without record keeping and/or custodial duties. The Department should also require each division to return their portion of the fixed asset listing to the accountant with evidence/documentation that they did actually confirm the existence of the fixed assets. Then the accountant should adjust or correct the fixed asset records and tag assets as needed.**
- b. **Follow the State Accounting Policies and Procedures by retaining supporting documentation for all fixed assets that are surplus, lost, and/or stolen.**
- c. **Perform a monthly reconciliation of capital expenditures per FINET and the FINET Fixed Assets activity, as required by FIACCT 09-08.10.**

Department's Response:

We concur with the Auditor's findings and are working to implement the recommendations.

6. **IMPROPER MONITORING AND AUDITING OF CONTRACTORS** – Industrial Assistance Fund

For fiscal year 2001, we reviewed 2 of the 10 Industrial Assistance Fund (IAF) contracts and noted that the Department did not properly monitor either of the contracts for compliance or loan repayments. *Utah Code*, Section 9-2-1205 and IAF policies and procedures, section VII, require annual monitoring for compliance with IAF loan contracts, specifically whether the companies met their obligations to expend funds with Utah suppliers and to create new jobs in Utah. The

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Department's internal auditor would have typically performed this review for companies with rural contracts; however, there was no documentation on file indicating that this review was performed. In addition, a CPA firm would have typically performed an agreed-upon procedures audit for companies with corporate contracts; but the contract with the CPA firm was allowed to lapse during 2000.

Recommendation:

We recommend that the Department monitor all IAF contracts in a timely manner by using either the Department's internal auditor or by contracting with a CPA firm. The Department should maintain documentation of all reviews completed by their internal auditor.

Department's Response:

We concur with the Auditor's findings and are working to implement the recommendations.

7. IMPROPER RECORDING AND REMITTANCE OF SALES TAX – Travel Council and Arts Council

We noted the following errors in the recording and remittance of sales tax revenues collected:

- a. Of the total \$922.05 of sales tax collected by the Travel Council, \$393.11 was not properly recorded in FINET in the agency sales tax clearing account. Instead, the entire cash receipt from some sales was recorded as Publication Sales Revenue. When the Sales and Use Tax Return is prepared and submitted to the State Tax Commission, only the amount in the agency sales tax clearing account is submitted. Since some sales tax has not been properly recorded as such, it will not be remitted to the Tax Commission.
- b. The Arts Council uses the initial receipts to record the sales tax revenue on a Cash Receipts Ledger spreadsheet. However, these initial receipts do not always indicate the amount collected as sales tax, so the spreadsheet and the sales tax submitted to the Tax Commission are not complete. We scanned the second quarter receipts, totaling \$294.50, which represented 98 percent of the sales tax collected during calendar year 2000. We found initial receipts which did not identify a total of \$13.75 of sales tax. Therefore, not all sales tax is being properly remitted to the Tax Commission.

Recommendation:

We recommend that the Department properly record and submit sales tax to the State Tax Commission. We further recommend that the Department retroactively calculate the unreported sales tax collected and submit the unpaid sales tax to the Tax Commission.

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Department's Response:

We concur with the Auditor's findings and are implementing the recommendations.

8. PAST DUE ACCOUNT RECEIVABLES NOT TURNED OVER TO OSDC – Travel Council

Uncollectible account receivables at the Travel Council are not turned over to the Office of State Debt Collections (OSDC) after they are 61 days past due, as required by State policies and procedures. One past due receivable has been outstanding for over 5 months. According to State Accounting Policies and Procedures FIACCT 06-01.13, "Agencies should pursue collection efforts on past due receivables for 60 days. Once the receivable is 61 days past due it should be turned over to OSDC for further collection efforts."

Recommendation:

We recommend that the Travel Council comply with State Accounting Policies and Procedures FIACCT 06-01.13 by turning over their past due receivables to OSDC after they have pursued collection efforts for 60 days.

Department's Response:

We concur with the Auditor's findings and have already implemented this recommendation.

9. PETTY CASH FUND WEAKNESSES – DBED & Travel Council

We tested two (Travel Council and DBED) of the eight petty cash funds at the Department and noted the following weaknesses:

- a. State Accounting Policies and Procedures FIACCT 05-23.01 prohibits the purchase of specific items, such as food and registration fees, from petty cash funds. However, eleven purchases (totaling \$146.75) in the DBED fund and two purchases (totaling \$65.00) in the Travel Council Fund were for these types of items.
- b. Neither division has an employee independent of the petty cash custodian periodically perform surprise counts of their fund. Surprise counts should be performed to ensure that the proper amount is maintained in these funds at all times and that there are no inappropriate expenditures.
- c. The DBED petty cash fund has not been replenished for approximately six and a half months and the Travel Council petty cash fund was only replenished once in approximately six months. State Accounting Policies and Procedures FIACCT 05-23.01 states that the petty cash funds

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should be replenished at least once a month. The lack of need to replenish these funds on a monthly basis indicates that the amount in these petty cash funds may be in excess of the normal expenditure requirements.

- d. The Travel Council's petty cash fund has a checking account associated with it. This checking account has not been reconciled to the bank statement for approximately six months. The checking account should be reconciled to the bank statement on a monthly basis.
- e. Access to the Travel Council's petty cash fund is not limited to the custodian. One employee has access to the petty cash box and two other employees have authorization to sign the petty cash fund checks. Responsibility for and access to the fund should be vested in the custodian only.
- f. The petty cash reimbursement request for the Travel Council was not approved by someone other than the custodian before it was sent to the State Division of Finance. A person other than the custodian should review and approve petty cash reimbursement requests before they are sent to the State Division of Finance.
- g. The Travel Council's petty cash fund was \$44.61 short. However, the Travel Council had \$44.61 in a safe. Even though it equals the petty cash fund shortage, none of the employees had documentation showing why it was in the safe or what it was for.

Recommendation:

We recommend that the Department:

- a. **Not permit unallowable expenditures from the petty cash funds.**
- b. **Have a person independent of the petty cash custodians periodically perform surprise counts of the petty cash funds.**
- c. **Reduce the size of petty cash funds based on normal expenditure requirements, and then replenish the petty cash funds at least monthly.**
- d. **Perform monthly bank reconciliations of the checking accounts associated with petty cash funds.**
- e. **Limit access to the petty cash funds to the petty cash custodians and designate the custodians as the only authorized signer on the petty cash checking accounts.**
- f. **Have individuals other than the petty cash custodians sign the petty cash reimbursement form to indicate approval of the reimbursement requests.**
- g. **Properly account for all cash removed from petty cash funds.**

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Department's Response:

We concur with the Auditor's findings and are working to implement the recommendations.

10. NONCOMPLIANCE WITH PAYROLL POLICIES AND PROCEDURES

Two administrative salary increases we reviewed did not have documented approval of the executive director. Also, one of these administrative salary increases did not have a written justification for the increase. Utah Administrative Code R477-7-4.(11)(c) requires justifications for administrative salary increases to be in writing and approved by the executive director.

Recommendation:

We recommend that the Department comply with State policies by documenting both the justification for administrative salary increases and the approval by the executive director.

Department's Response:

We concur with the Auditor's findings and have already implemented this recommendation.