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**REPORT NO. 01-637**

May 10, 2002

Mayor Marshall and Big Water Town Council  
P.O. Box 410127  
Big Water, UT 84741-2127

Dear Mayor Marshall and Town Council:

We have performed the procedures described below to certain aspects of the internal control and compliance of the Town of Big Water (Town) for the period January 1998 through July 2001 and of the Big Water Justice Court (the Court) for the period January 1, 2000 through December 31, 2000. The purpose of these procedures is to assist the Town and the Court in evaluating their internal control and compliance. The procedures performed were as follows:

1. We reviewed the cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes for both the Town and the Court.
2. We reviewed the internal control over cash receipting procedures, including accounts receivable as applicable, at the Town and the Court. We also tested samples of cash receipts transactions at the Town and the Court.
3. We reviewed internal control over the Town's bank accounts, specifically procedures concerning bank reconciliations and non-sufficient funds checks. We also reviewed controls over and counted petty cash funds at the Town.
4. We tested the Town's cash disbursements for propriety, reasonableness, and compliance with Town purchasing policies and with State law.
5. We tested certain payroll disbursements at the Town for propriety, reasonableness, and compliance with policies and procedures.
6. We reviewed the Court's procedures for collecting and recording certain fines, fees, and bails imposed by the Court.

7. We reviewed the Court's procedures for remitting the required portion of fines and fees to the State of Utah and tested a sample of remittances.
8. We reviewed the Court's collection procedures for outstanding accounts receivable balances and tested a sample of receivable balances.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the Town's and Court'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 Town's and the Court's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that Findings Numbers 1-8 and 13-15 are significant weaknesses to the Town and Court, respectively. If these weaknesses are left uncorrected, an unacceptable amount of errors or misappropriations could occur without detection.

This report is intended solely for the information and use of the Town and the Court 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 Town and the Court during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Debbie Empey, Audit Director, at (801) 538-1342.

Sincerely,

Auston G. Johnson, CPA  
Utah State Auditor

cc: Eric Lind, Kane County Attorney

**TOWN OF BIG WATER**  
FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

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# **TOWN OF BIG WATER**

## FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

### **TOWN OF BIG WATER**

#### 1. **SEPARATION OF DUTIES WEAKNESSES** (Significant Weakness)

We noted the following separation of duties weaknesses in our review of the Town of Big Water:

- a. The Town Clerk has access to cash through daily receipting and deposits, handles non-sufficient funds (NSF) checks, reviews expected receipts, approves/reviews disbursements, is an authorized check signor, has access to blank checks, mails/handles signed checks, is an authorized credit card user, reviews processed disbursements, makes entries and adjustments to the Town's Caselle general ledger system, and prepares the bank reconciliation.
- b. The Mayor has access to cash through receipting, commits the entity to exchange, approves write-offs, and reviews expected receipts.
- c. The Deputy Town Clerk has access to cash through receipting, records entries in accounts receivable subsidiary ledgers for trash revenue; prepares and sends billings; initiates adjustments, credits and write-offs; and reviews expected receipts.

Inadequate separation of duties exists when the same individual has custody of assets, collection and review responsibilities, access to accounting records, and/or reconciliation responsibilities. Inadequate separation of duties could allow misappropriations, errors, and fraud to occur without detection. If a limited number of personnel prevents adequate separation of duties, the Town should implement additional procedures that would help compensate for the weaknesses as follows:

- A person who does not handle cash/checks received should reconcile cash/checks received to the validated deposit slips.
- A person who does not use the credit card should reconcile the detailed credit card statement with supporting receipts and documentation. (See Finding No. 6.)
- The Mayor should cease receipting cash/checks to enable the review and reconciliation functions he/she performs to be independent.
- A person who does not have access to the Caselle system or the accounts receivable subsidiary ledger for trash revenue should review adjustments, credits, and write-offs in the accounts receivable subsidiary ledger and the general ledger for the Town.

# **TOWN OF BIG WATER**

## FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

### **Recommendation:**

**We recommend that the Town separate the duties related to the custody of assets, access to accounting records, and collection and review responsibilities. If separation is not possible, we recommend that the Town implement additional procedures as described above.**

### *Town's Response:*

*The Clerk will reconcile cash/checks received after the Treasurer has prepared the deposit slip. The Town credit card has been cut up. The Mayor and Treasurer will cease receipting cash/checks. The Mayor will review adjustments, credits and write-offs in accounts receivable and general ledger.*

## 2. **INACCURATE ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER** (Significant Weakness)

The Town does not accurately account for balances owed by customers for trash collection. We reviewed the accounts receivable subsidiary ledger for trash revenue, which details customers' monthly charges and payments, for the period of July 1998 through December 2000, and noted the following problems:

- a. The subsidiary ledger was created using an Excel spreadsheet. It does not link to the Town's general ledger. Therefore, trash payments received must be entered into the general ledger and then again into the subsidiary ledger, which is inefficient and can cause inaccuracies.
- b. The subsidiary ledger cannot produce a customer history and does not show a history of adjustments or entries made to customers' accounts. As a result, we were unable to identify what adjustments were made to customers' accounts and whether the adjustments were proper. This could allow customer account balances to be inappropriately deleted or reduced without detection.
- c. For 25 of the 30 months reviewed, the ending balance for one month did not agree to the beginning balance for the subsequent month. Because of the lack of customer and adjustment history, we were unable to determine what specific entries or adjustments were responsible for the discrepancies and whether they were improper.
- d. We scanned the ledger and noted 10 customer accounts where the subsidiary ledger did not properly add up (i.e., Beginning Balance + Monthly Fee – Payment Received  $\neq$  Ending Balance). As a result, the account balances for these 10 customer accounts were inaccurate.

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

- e. The amount due listed on the customer's monthly remittance advice did not always agree to the amount due listed on the subsidiary ledger. In many instances, customers received a remittance advice that showed a large amount past due; however, the subsidiary ledger showed only the current monthly charge of \$16. As a result, we were unable to determine the proper amount owed by these customers. Because of the lack of customer and adjustment history, we were unable to determine the cause of these discrepancies, which may include money paid by customers but not credited or deposited by the Town, or improper credit to subsidiary ledger customer accounts when money was not paid.

The Town needs to either acquire a new accounts receivable accounting system which will properly interface the subsidiary ledger with the general ledger or perform detailed reconciliations and reviews of the subsidiary ledger and general ledger to compensate for the weaknesses noted above.

#### **Recommendation:**

**We recommend that the Town obtain an adequate accounts receivable accounting system or perform monthly detailed reconciliations and reviews of the subsidiary ledger and general ledger.**

#### *Town's Response:*

*Garbage billing will be taken over by Monument Disposal.*

### 3. **CASH RECEIPTING WEAKNESSES** (Significant Weakness)

The Town's cash receipting procedures are inadequate. We scanned the Town's records for receipts and deposits for the period January 1998 through July 2001 and tested a sample of cash receipts for each year. Included were receipts collected by the Town on behalf of the Justice Court for fines owed to the Court. We found various weaknesses and errors in the Town's procedures that indicate the Town does not maintain documentation for cash/checks received and does not ensure that all cash/checks received get deposited as follows:

#### **Undeposited and Missing Cash Receipts**

- a. We attempted to trace a sample of Town receipts, including those made on behalf of the Justice Court, to the deposit. We could not find evidence showing the deposit of 30 receipts, resulting in a possible loss of \$1,735.

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

- b. For fiscal year 2000, we performed a calculation to estimate the amount of expected trash revenue and found that actual revenue was between 2% and 6% (\$705- \$2,015) lower than expected revenue.
- c. The carbon copies for 8 receipts (2 in calendar year 1999 and 6 in calendar year 2000) were missing from the receipt books. Therefore, we were unable to determine whether 7 of these receipts were ever issued and if cash/checks were ever received or deposited. However, for one of these receipts, the payor provided us with a copy of his original receipt showing a payment of \$60. But, on the date of that receipt, the payor's account was credited for only \$20. In addition, it appears that a replacement receipt was written on that date for \$20 and a deposit was made to the Town in the amount of \$20. This resulted in a loss of \$40.
- d. A deposit correction was made by the bank to reduce a deposit in 1998 by \$191 because the deposit did not include all of the funds listed on the deposit slip. We were unable to find evidence that these funds were ever deposited. Also, we could not find an explanation of the discrepancy.

The losses or possible losses detailed above total \$1,966. Of this total, we were able to verify with the payors that at least \$1,489 of the missing funds were cash payments and \$40 was paid by money order. We were unable to contact the remaining payors. All cash/checks received should be properly recorded upon receipt and deposited. Furthermore, proper control procedures should be implemented that would detect errors as noted above such as an independent reconciliation between cash/checks received and cash/checks deposited (see Finding No. 1). This reconciliation should also include reconciling the cash/check composition of the deposit to the receipt documentation. Differences could indicate fraud.

#### Altered receipts

- e. The carbon copies of three receipt forms had been altered. One Justice Court receipt was reduced by \$100 on the receipt carbon. The other two receipts were Town receipts and the total of the two alterations amounted to a \$5 reduction. We were unable to contact the payors to verify whether the alterations were proper. While alterations on the carbon copy may be a correction of a clerical error when writing the original receipt, it can also indicate fraud. If a clerical error is made, the entire receipt should be voided and a new receipt issued. If an error is noted after a receipt is issued, the clerk should include supporting documentation to justify the alteration and an individual who does not handle cash/checks should review the receipt books to ensure that receipts are not altered or that alterations are appropriate.

#### Inadequate Policies and Procedures

- f. The Town did not generally document the mode of payment (cash vs. checks) on Justice Court receipts until 2001. However, there were two Justice Court receipts in 2001 that did

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

not indicate mode of payment. In addition, we noted 29 Town receipts and two remittance advice portions of the trash bill that did not indicate a mode of payment. It is necessary to record the mode of payment on receipt documentation in order to facilitate a reconciliation between the amount and composition of the deposit and the original receipt documentation. The lack of documentation could result in errors or fraud occurring without detection.

- g. We noted three instances where the Town did not properly document the replacement of cash in the deposit by a money order purchased to facilitate deposits by mail. When money orders are purchased to replace cash payments, the amount being replaced should be adequately documented in the support attached to the validated deposit slip. If the purchase of money orders to replace cash payments is not adequately documented, errors or fraud could occur without detection.
- h. The Town does not ensure that handwritten receipts are issued in sequential numerical order. We noted gaps in issued receipt numbers during 1999 when the Town used hand made receipts and store-bought generic receipts for a short time. We also noted that 14 receipts in 2000 and 21 receipts in 2001 were not used but were not properly voided or were issued out of sequence. Receipts should be issued sequentially and an individual who does not handle cash/checks should ensure that cash/checks were received and deposited for each receipt issued. Failure to account for receipt numbers and properly maintain control over unused receipts could result in the occurrence of fraud without detection.
- i. Four voided receipts and one possibly unused receipt in the receipt book were missing the original and one carbon copy of the receipt. Missing originals and/or copies of voided or unused receipts could be an indication of misappropriation of funds. If a receipt is voided or unused for some reason, all copies of the original of the receipt should be maintained in the receipt book and marked "void" so that it cannot be used for any purpose. Failure to maintain control over voided receipts could result in the occurrence of fraud without detection.
- j. We noted 8 instances where cash/checks received were held out of deposits and were not deposited until several weeks after receipt and sometimes after receipts received subsequently were deposited. Six of the 8 were cash payments. While this could be due to clerical error, this could also be an indication of fraud. We also noted 8 of 21 Justice Court receipts in 2000 that were not deposited within 3 days as required by *Utah Code* Section 51-4-2. All receipts should be deposited within 3 days of receipt as required by State law. Failure to deposit receipts in a timely manner increases the risk that errors or fraud could occur.
- k. Justice Court receipts were dated using the date of the check written to the Court. Receipts should be dated using the date the payment was received by the Court. If receipts are not dated correctly, the risk of errors or fraud is increased.

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1. There was no documentation concerning the disposition of NSF checks for Calendar year 2001. Also, there is no policy in the Big Water Policies and Procedures that deals with returned checks, nor the fee associated with returned checks. Failure to have written policies governing the handling and documentation of returned checks increases the risk of misappropriation, errors, or fraud without detection. The risk is further increased since there is a separation of duties weakness regarding the handling of returned checks (see Finding No. 1).

It is important that some type of written documentation be maintained for each payment to the Town. It is also important to be able to trace each payment (including amount and mode of payment) received to a deposit and also to the general ledger and the subsidiary ledger to determine accurate accounts receivable balances.

#### **Recommendation:**

**We recommend that the Town:**

- a-d. Establish an effective system of internal controls over cash receipts to ensure that all receipts are recorded and deposited intact daily. We further recommend that the Town take action as deemed appropriate in this matter and seek recovery of any misappropriated cash receipts.**
- e. Have an independent person review pre-numbered receipts to ensure that they have not been altered. Any alterations should be clearly documented and reviewed.**
- f. Record mode of payment on all receipt forms or other receipt documentation.**
- g. Adequately document the replacement of cash in the deposit with a money order.**
- h. Issue receipts sequentially. Receipts should also be reviewed by someone who does not handle cash/checks to ensure that the cash/checks were received and deposited for each receipt issued.**
- i. Maintain all parts of any unused or skipped receipts in the receipt book and mark them "void."**
- j. Deposit all funds received within 3 days of receipt.**
- k. Record the actual date that payment is received on Justice Court receipts rather than the check date.**

# **TOWN OF BIG WATER**

## FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

### **I. Maintain documentation on the disposition of returned checks and establish policies and procedures regarding returned checks.**

#### Town's Response:

*Funds are recorded and deposited within 3 days. We will seek recovery of misappropriated cash receipts. The Treasurer will review numbered receipts to ensure that they have not been altered. The mode of payment will be recorded on all receipts. In the deposit packet, we will make note of replacement of cash in deposit with a money order. Receipts will be issued sequentially. All parts of unused or skipped receipts will be kept in book and marked void. Actual date of payment will be recorded on receipts. The Treasurer will keep returned checks and documentation on their disposition.*

### **4. INADEQUATE DISBURSEMENT DOCUMENTATION (Significant Weakness)**

We examined all disbursements from January 1, 1998 through July 31, 2001 and noted that 264 out of 1,938 checks issued during the period did not have adequate documentation to support the disbursement (228 in 1998; 7 in 1999; 13 in 2000; and 16 in 2001). Although most of these unsupported disbursements appeared to be reasonable expenditures, without adequate supporting documentation, it is difficult to determine whether the disbursement was, in fact, proper. Out of the 264 disbursements with inadequate supporting documentation, we specifically noted the following troubling disbursements:

#### Petty Cash Disbursements

- a. Portions of 8 disbursements payable to Big Water Municipal Corporation for reimbursement of the petty cash fund were not supported by documentation that justified the original expenditure of petty cash. The unsupported portions amounted to \$623. Six of the checks were written and cashed between 1998 and October 2000. The other checks were written and cashed between December 2000 and February 2001. Since several individuals have access to the petty cash funds, it is difficult to establish accountability over the funds and determine whether the funds were spent for appropriate purposes. Access to the petty cash funds should be limited to a petty cash custodian to establish accountability over the funds and to prevent errors or misappropriation of the funds. In addition, petty cash fund reimbursement checks should be issued in the name of the petty cash custodian.
- b. It appeared that the check amount on one disbursement in January 2000 had been changed by adding a "1" in front of the amount of the check. The payee was Big Water and the endorsement was by the Town Clerk. Two amounts listed on the description portion of the check had been changed by \$50 each from the original amounts supported by receipt

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

documentation. The \$100 increase is included in the amount in a. above. There was no indication that these changes were authorized by the Town.

- c. One disbursement to reimburse the petty cash fund in December 1998 indicated that the reimbursement contained an increase of \$100 in the petty cash fund to total \$200. However, we could not find evidence that this increase was authorized by the Town. Furthermore, the petty cash fund was subsequently reduced back to \$100 in September 2000 to reflect the amount of petty cash currently on hand. The disposition of the \$100 is unknown. This amount is included in the amount noted in a. above. We also noted that although there were two signatures on the cancelled check, there was only one signature (the Town Clerk) on the carbon copy of the check. The payee was Big Water and there was no endorsement. This may be an indication that the second signor may not have received the disbursement intact with the carbon copies and support documentation for review.

#### **Unsupported Postage Disbursements**

- d. One disbursement in March 2000 was payable to and endorsed by a former Town Clerk for a reimbursement for \$105 in postage. However, there was no supporting documentation that indicated the clerk had purchased postage and no evidence that the Town ever received the postage.
- e. One disbursement was payable to the Town and was charged to postage expense. The check was endorsed by the Town Clerk at the time and cashed on September 8, 2000 in the amount of \$105. Town employees should not cash checks that are payable to the Town. Furthermore, there was no supporting documentation that indicated postage was purchased with the money.

All disbursements should be supported by documentation that indicates the disbursement is proper. Also, *Utah Code*, Section 10-5-123 requires that the Town Council directly approve all claims and demands against the Town before payment of the claims. This approval should include a review to ensure that supporting documentation is adequate.

#### **Recommendation:**

**We recommend that the Town Council comply with State law and ensure that supporting documentation for all disbursements is appropriate. We also recommend that the Town limit access to the petty cash funds to a petty cash custodian to establish accountability over the funds. Finally, we recommend that the Town consider seeking repayment for the items noted in b. through e., as deemed appropriate.**

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

#### Town's Response:

*Supporting documentation will be required for all disbursements. Petty cash funds have been reduced to \$50 and are only to be accessed by the Clerk.*

#### 5. **IMPROPER CHECK ISSUANCE PROCEDURES** (Significant Weakness)

We scanned all checks issued from January 1, 1998 through July 31, 2001 and noted the following:

- a. There were 55 checks in 1998, 19 checks in 2000, and 2 checks in 2001 that did not have the dollar amount written out or stamped on the check with an encoding machine. If the dollar amount is not written out or encoded on the check, the numeric dollar amount could be altered and the check redeemed for an improper amount.
- b. There were 12 checks in 1998, 1 check in 1999, 5 checks in 2000, and 1 check in 2001 that were signed by only one authorized check signer. According to Town policy, two authorized check signers should sign every check. Issuing checks with only one signature increases the risk of improper disbursements.
- c. We noted 1 check in 1999, 1 check in 2000, and 26 checks in 2001 that were not signed by either the Treasurer or the Deputy Treasurer. Per *Utah Code*, Section 10-5-127, the Treasurer, or in the Treasurer's absence the Deputy Treasurer, must review and sign all checks.

#### **Recommendation:**

**We recommend that the Town:**

- a. **Require that all checks issued have the dollar amount written out or encoded with a machine prior to disbursement.**
- b. **Require that all checks issued be signed by two authorized employees.**
- c. **Require that the Treasurer, or in the Treasurer's absence the Deputy Treasurer, review and sign all checks prior to disbursement to comply with State law.**

#### Town's Response:

*Checks will be signed by 2 authorized employees (one being the Treasurer) and have the dollar amount written out or encoded with a machine.*

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### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

#### 6. **CREDIT CARD EXPENDITURES WEAKNESSES** (Significant Weakness)

We noted the following weaknesses related to the Town credit card:

- a. During December 2000, the Town Clerk used the Town's credit card to make five personal cash advances, four of which were made at casinos in Nevada. These cash advances and the subsequent finance charges incurred during the seven months the balance was outstanding total \$661. This is a violation of Big Water Policies and Procedures 5.11 which states "...credit cards shall be used for official business only and shall not be used for the personal convenience of an employee." These advances were not detected since there was inadequate reviews of the credit card statements, as described below. As of February 2002, the Clerk had repaid \$556 of the \$661, leaving a \$105 balance.
- b. There is no detailed review of the credit card detail statement or charge slips by anyone other than the Town Clerk. Since credit card use circumvents normal disbursement procedures, it is susceptible to abuse. The Town should ensure that an independent individual (someone who does not use the credit card) reconcile the charge slips to the detailed credit card statement and review the charges for propriety.
- c. The person listed on the Town's credit card statements as being responsible for the credit card is an individual who has not been an employee of the Town since November of 1999. This terminated employee is still authorized to make inquiries, purchases, or changes to the credit card with no other level of approval. Allowing a terminated employee to remain the responsible person increases the risk of fraud by the terminated employee. In addition, there is no assignment of a current employee as the responsible person for charges made on the card, which increases the risk of errors or fraud without detection.
- d. The detail transaction portion of one credit card statement, as well as charge slips, was missing from the Town's documentation. The lack of documentation eliminates an audit trail and increases the risk of errors and fraud without detection.

#### **Recommendation:**

**We recommend that the Town:**

- a. **Comply with Big Water Policies and Procedures by not allowing employees to use the Town credit card for personal convenience. Additionally, we recommend that the Town seek reimbursement from the Town Clerk for the outstanding balance of \$105.**
- b. **Have an independent person reconcile credit card charge slips to the credit card detail statement and review for propriety.**

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

- c. **Assign a current employee as the responsible person for the Town's credit card and ensure that terminated employees are not authorized users of the credit card.**
- d. **Retain all supporting documentation and all detail statements for the credit card.**

#### Town's Response:

*The Town credit card has been cancelled by the new Mayor.*

#### 7. **PAYROLL CONTROL WEAKNESSES AND NON-COMPLIANCE** (Significant Weakness)

We reviewed all 66 payroll expenditures made to a former Town Clerk (Clerk 1) from April 1998 through September 2000, and all 26 payroll expenditures made to another former Town Clerk (Clerk 2) from October 2000 through July 2001. We also reviewed a sample of 39 payroll expenditures for various other Town employees during this same time period. The Town Clerk is responsible for calculating and preparing payroll disbursements and related reports for all Town employees. The following are instances of internal control weaknesses, inappropriate payroll expenditures, and non-compliance with policies noted during our review:

##### Inappropriate Calculation and Reporting of Payroll Related Expenditures

- a. For 11 pay periods tested for Clerk 1, federal and/or state taxes were not properly deducted from the Clerk's paychecks; however, in most instances taxes were still paid using Town resources. Applicable federal and/or state taxes should always be properly deducted from employees' paychecks and then remitted to the applicable taxing entity. The effect of these errors/irregularities was that the Town, rather than the Clerk 1, paid the individual income taxes of \$1,085 and \$266 to the Federal and State Governments, respectively.
- b. Gross income and social security taxes were under-reported on the 941 returns submitted to the Federal Government. Gross income was under-reported by \$7,736 and social security taxes were under-reported and, therefore, not remitted in the amount of \$481. The portion of these amounts that is attributable to Clerk 1's salary is \$7,486 in gross income and \$458 in social security taxes under reported. Gross income and social security taxes reported on the 941 returns should reflect actual amounts earned and the appropriate amount of related social security tax. As a result of the inappropriate calculation of gross income and social security tax, the employee did not pay a sufficient amount of social security tax to the Federal Government and the Town did not pay an equal amount of the employer match portion of the tax.

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### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

- c. Wages paid to Clerk 1 were under-reported to the Federal and State Governments in 1998 and 1999 by \$2,131 and \$1,567, respectively, based on our comparison of wages listed on the W-2 forms to the Town's accounting records. The wages reported on the W-2 forms should agree to wages listed on the accounting records. These errors resulted in under reporting of income to both the Federal and State Governments in the amount of \$3,699 and inappropriately reduced Clerk 1's individual income tax burden.
- d. For the pay period ending January 23, 1999, the regular insurance premium of \$65 was not withheld from Clerk 1's paycheck. However, it appears the premium was still paid using Town resources. This premium should have been deducted from the pay of the employee.

#### Improper Payments for Compensation Time, Leave and Overtime

- e. Clerk 1 received pay for 69 hours of unearned compensation time and 70 hours of unearned annual leave, resulting in an overpayment of \$621 for compensation time and \$660 for annual leave. Most of these hours relate to adjustments made to the compensation time and leave balances that did not appear to be earned and there was no documentation to support the adjustments. Compensation time should only be granted for overtime or holidays when the employee worked. Annual leave payments should be made only for hours that have been properly accrued during an individual's service to the Town.
- f. Clerk 1 received overtime pay during pay periods when she did not work over 40 hours, resulting in an overpayment of \$399 for overtime pay. Also, the Clerk 2 received overtime pay for several pay periods when she did not work over 40 hours, resulting in an overpayment of \$144 for overtime pay. Big Water's Personnel Policies & Procedures Manual – Section X Paragraph 10.10 requires an employee to work forty hours over and above any holiday, annual, or sick leave taken to qualify for overtime pay. Both the clerks calculated overtime even though they did not work forty hours above and beyond any holiday, annual, or sick leave they took for each pay period.
- g. Clerk 1 cashed out 40 hours of annual leave time. However, Town policies imply that annual leave is to be taken as time off except at the time of separation when it can be paid out. Big Water Policies and Procedures Manual – Section XVI – Paragraph 16.2h states, "All annual leave requests should be submitted a reasonable time in advance of the desired time off to the Mayor." Cashing out annual leave rather than taking the time off may create a financial burden to the Town and is a violation of policy.
- h. Clerk 1 was paid out for her annual leave balance at the time of separation without giving the required two weeks notice. The Personnel Policies & Procedures Manual Section VII – Paragraph 7.2 indicate that employees who do not give the required notice will not be eligible to receive any unpaid leave balances. The leave balance paid out was part of the

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

unearned leave balance noted in e. above. The Town should adhere to policies and procedures regarding payout of leave balances at termination.

- i. Clerk 2 reported 148.75 unauthorized overtime hours during her 10 months of employment. Per Big Water Policies and Procedures Manual Section 10.11, overtime should be approved by the Mayor in writing before worked. Failure to require all overtime to be authorized prior to working can result in unnecessary payroll expenditures by the Town.
- j. Clerk 2 used 17 hours of annual leave time that she had not yet accrued, resulting in an overpayment of \$149. There is no policy in the Big Water Policies and Procedures Manual that governs the use of unaccrued leave; therefore, we were unable to determine if this is allowable. Failure to have written policies governing leave that is not yet accrued increases the risk for errors, manipulations, and misappropriation without detection.

#### Lack of Proper Review, Approval, and Handling of Time Sheets

- k. Since the Town Clerk prepares payroll disbursements, her timesheet should not be returned to her after it has been reviewed and approved. Alternatively, the Town Clerk's paycheck and timesheet could be reviewed and approved simultaneously. Returning approved timesheets to employees could result in employees making alterations after approval. Such alterations would be difficult if not impossible to detect because the timesheet already has been approved.
- l. The Postal Clerk does not fill out a timesheet for pay periods worked. Personnel Policies & Procedures Manual – Paragraph 10.11 states that “each employee is required to maintain and sign, as verification of accuracy, daily logs or time sheets showing all hours worked, including overtime, and to submit the daily logs or timesheets to their immediate supervisor for examination.” Failure to properly complete a timesheet may result in overstatement of hours worked and is a violation of Town policy.
- m. Twenty-one out of 120 timesheets tested were not approved. Immediate supervisors are required to examine timesheets according to Personnel Policies & Procedures Manual – Paragraph 10.11. This examination is documented by signing the timesheet. Failure to properly examine and approve a timesheet may result in errors or fraud going undetected.
- n. Timesheets were missing for three pay periods. Therefore, we were unable to determine whether they were properly approved and complied with the Personnel Policies & Procedures Manual. Timesheets are required by policy and should be maintained to support payroll. Failure to maintain supporting documentation for payroll increases the risk that errors or fraud could occur without detection.

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#### Lack of Supporting Documents for Per Diem

- o. In one instance Clerk 1 received payment for \$30 per diem that we could not substantiate since there was no supporting documentation. According to Personnel Policies & Procedures Manual Section 13.1, receipts are required to reimburse the employee and records must be kept reflecting the amount of reimbursement. Failure to maintain adequate supporting documentation raises questions as to the validity of such reimbursements and is not in conformance with good internal control procedures.

#### Lack of Policies for Pay Advances

- p. The Town does not have written policies or procedures outlining authorization and repayment of pay advances. During our review, we noted that Clerk 2 received \$1,100 in pay advances and the Deputy Town Clerk received \$300 in pay advances. The advances were not approved by the Town Council; however, the pay advances were repaid to the Town. Failure to have policies governing pay advances increases the risk for errors, manipulation, or misappropriation without detection.

#### **Recommendation:**

**We recommend that the Town seek restitution for the amounts listed in a, d, e, f, and j, as deemed appropriate. We also recommend that someone who does not prepare the payroll perform thorough reviews of timesheets, paychecks, and related payroll reports. The reviewer should:**

- a-d. Ensure that all taxes and other deductions are properly calculated and withheld from each employees wages and that the taxes and wages are properly reported to the Federal and State Governments. In addition, we recommend that the Town communicate with the State Tax Commission and the Internal Revenue Service regarding the under-reporting of wages and taxes as described in b and c.**
- e-j. Only approve pay for compensation time, overtime, and leave that has been properly earned, accumulated, and approved in accordance with Town policy.**
- k-n. Ensure that employees complete time sheets for each pay period and that the timesheets are in compliance with the Town's existing Personnel Policies & Procedures Manual. We also recommend that the timesheet for the clerk preparing the payroll be reviewed simultaneously with their pay check.**
- o. Require receipts to be submitted with all requests for reimbursement of per diem.**

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- p. Enforce policies and procedures governing pay advances after the policies and procedures have been developed by the Town.**

*Town's Response:*

*Time sheets, paychecks and payroll reports will be checked by the Treasurer. The Town Attorney will look into restitution for overpayments. The Town will consider contacting the State Tax Commission and IRS. No comp time, overtime, or leave will be paid unless properly earned and approved. Employees are to complete time sheets, and the timesheet for the Clerk preparing the payroll will be reviewed by the Treasurer, but not returned to the Clerk.*

8. **IMPROPER CONTRACT INITIATION PROCEDURES** (Significant Weakness)

For payments made from the Road Fund from January 1, 2001 through July 31, 2001, we noted the following problems:

- a. One contract was created and the expenditure made before the Town Council directly approved the contract. Additionally, the expenditure overexpended the budget of the Road Fund at the time. Per *Utah Code*, Section 10-5-123, "The town clerk shall certify on the voucher or check copy, as appropriate, that:
  - (1) The claim has been pre-audited and documented;
  - (2) The claim has been directly approved by the council;
  - (3) The claim is within the lawful debt limit of the town; and
  - (4) The claim does not overexpend the appropriate departmental budget established by the council."
- b. The increase to the budget that resulted from the expenditure in a. above was approved in a public hearing subsequent to the money being spent. Per *Utah Code*, Section 10-5-117 and 10-5-108, a public hearing should be held to discuss a proposed increase to a fund's budget prior to adoption of the budget.
- c. Two contracts for road maintenance were not countersigned by the Town Clerk. Per *Utah Code*, Section 10-5-122, "The Town Clerk shall countersign all contracts made on behalf of the town and shall maintain an indexed record of all such contracts."

These situations result in non-compliance with State law and could result in errors or misappropriation without detection.

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

#### **Recommendation:**

**We recommend that the Town comply with State law by doing the following:**

- a. Require that the Town Clerk verify that the Town Council has directly approved payments for expenditures and that the payments do not overexpend the appropriate budget established by the Council.**
- b. Require that public meetings be held prior to expending funds when a budget increase for a fund is proposed.**
- c. Require that the Town Clerk countersign all contracts made on behalf of the Town.**

#### **Town's Response:**

*The Town Clerk shall verify that the Town Council has directly approved payments for expenditures and that the budget is not exceeded. Public hearings will be held prior to expending funds when a budget increase for a fund is proposed. The Clerk will countersign all contracts.*

#### 9. **INAPPROPRIATE USE OF TOWN VEHICLE**

The Town Clerk took the Town car on a personal trip totaling an estimated 333 miles roundtrip. While reviewing travel expenditures charged to the Town's credit card by the Town Clerk during December of 2000 we found the unauthorized trip. The Town Clerk was authorized to take the car to training in Spanish Fork, Utah. However, the Town Clerk also drove the car to Wendover, Nevada, which resulted in a total of approximately \$111 in additional mileage and gas costs to the Town (at the IRS rate of 32 ½ cents per mile).

Section XIII 13.3 A of the Big Water Policies and Procedures requires that a log of all travel exceeding a thirty mile radius of Big Water shall be kept. The log shall include the reason for the trip, the time the employee departed, and the time the employee returned, and the vehicle used. No such log was kept that would substantiate the above training trip.

#### **Recommendation:**

**We recommend that the Town comply with current policies regarding Town vehicles and that the Town also implement a policy restricting the personal use of Town vehicles. We also recommend that the Town Council consider seeking repayment from the Clerk for the additional costs to the Town.**

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

#### Town's Response:

*This situation has been resolved with the previous Town Clerk and approved by the Town Attorney.*

#### 10. **IMPROPER PETTY CASH FUND PROCEDURES**

We noted a check made out to "Cash" for \$200 that was used to purchase general office supplies totaling \$133. The remaining change of \$67 was then deposited into the petty cash fund, thus improperly increasing the fund. Because the remaining change was deposited into the fund, accountability over the petty cash fund is lost.

In addition, during our surprise petty cash count, we noted that the petty cash fund had a surplus of \$61 over the authorized amount of \$100, which may be explained by the excess \$67 noted above. The total of all petty cash vouchers plus the cash-on-hand should equal the \$100 amount established for the petty cash fund. Improper accountability over petty cash funds could result in the misappropriation of funds or the occurrence of fraud without detection.

#### **Recommendation:**

**We recommend that the Town maintain adequate accountability over its petty cash fund and that the surplus be deposited into the bank in order for interest to be earned for the Town's General Fund.**

#### Town's Response:

*The petty cash fund has been reduced from \$200 to \$50 and will be under the exclusive control of the Clerk. The Treasurer will reconcile petty cash as needed.*

#### 11. **IMPROPER TRAVEL REIMBURSEMENT PROCEDURES**

From January 1, 2001 to July 31, 2001, the Town overpaid employees for per diem by approximately \$24. This resulted from three credit card charges for meals purchased by employees traveling less than one day on Town business. Each individual meal purchased exceeded the per diem rate established by the Town's policy. Big Water Municipal Policies and Procedures Manual section 13.3G outlines per diem for travel that requires less than a full day. In addition, the use of the Town credit card to purchase meals during travel is a violation of Big Water Policy 3.3G, section d. which states that per diem travel expenditures can either be advanced or reimbursed with documentation. Use of the credit card also increases the risk of error or misappropriations.

## **TOWN OF BIG WATER**

### FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1998 THROUGH JULY 2001

#### **Recommendation:**

**We recommend that the Town comply with Big Water Policies and Procedures by not allowing employees to use the Town's credit card for meal purchases and by reimbursing employees for meals while traveling at the specified per diem rate.**

#### **Town's Response:**

*The Town credit card has been cancelled. Reimbursements will only be made for meals while traveling at the specified per diem rate.*

#### 12. **FAILURE TO REMIT ABANDONED FUNDS**

For checks issued from January 1, 1998 through December 31, 2000, there were 7 checks that were outstanding for more than one year as of the date of testwork. Five checks were issued in February 1998 and two were issued in February 2000. Per *Utah Code* 67-4a-207(1), checks that remain outstanding for more than one year after they became payable are considered abandoned. Per *Utah Code*, Section 67-4a-301, all items considered abandoned as of the close of business on December 31<sup>st</sup> must be remitted to the Division of Unclaimed Property by the following May 1<sup>st</sup>. This weakness results in non-compliance with State law, and increases the risk of errors or misappropriation.

#### **Recommendation:**

**We recommend that the Town remit all amounts outstanding for more than one year to the Division of Unclaimed Property in accordance with State law.**

#### **Town's Response:**

*Checks outstanding for more than one year will be remitted to the Division of Unclaimed Property.*

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#### **BIG WATER JUSTICE COURT**

We performed a review of the Big Water Justice Court for calendar year 2000 with the following results.

13. **INADEQUATE SEPARATION OF DUTIES** (Significant Weakness)

The Big Water City Justice Court Clerk has access to cash receipts during Court sessions and, as a backup clerk for the Town, performs collection efforts for the Court and has the ability to make adjustments to the court accounting records. Inadequate separation of duties exists when the same individuals have custody of assets as well as access to the accounting records. Without a proper separation of duties, errors or fraud could occur without detection. In situations where it is not possible to separate the duties, additional procedures should be implemented such as a review of all adjustments made by the Court Clerk and a review of overdue accounts receivable for adequate collection efforts by someone other than the Court Clerk.

**Recommendation:**

**We recommend that the Court separate the duties of cash handling, performing collection efforts, and making adjustments to Court records. If this is not possible, we recommend that additional procedures, such as those listed above, be implemented to compensate for the weaknesses.**

*Town's Response:*

*The Court Clerk will record payments and keep track of overdue payments. The Town Treasurer will make the deposit and review all adjustments made by the Court Clerk, and also review overdue accounts receivable.*

14. **INADEQUATE SUPPORTING DOCUMENTATION FOR ADJUSTMENTS**  
(Significant Weakness)

Out of 25 accounts receivable adjustments reviewed at the Court, 21 did not have adequate supporting documentation; therefore, we were unable to determine whether the adjustments were valid and proper. Supporting documentation is necessary to facilitate a review of adjustments as recommended in Finding No. 13.

**Recommendation:**

**We recommend that the Court retain supporting documentation for all adjustments made to accounts receivable.**

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#### Town's Response:

*The Court Clerk will retain supporting documentation for all adjustments made to accounts receivable.*

#### 15. **NON-REMITTANCE OF SURCHARGE AND INCOMPLETE RECORDS**

(Significant Weakness)

During our review of surcharge remittances we noted the following:

- a. The Court is not remitting surcharge collection due to the State in a timely manner. Per *Utah Code 51-4-2(4)(a)*, the Court is required to pay all funds due to and collected for the State during the month on or before the 10<sup>th</sup> day of the month following collection. As of May 2001, the former Court Clerk had not calculated or remitted surcharges since April of 2000. Failure to remit the collected surcharge amounts in a timely manner each month violates State law and results in loss of revenue to the State.
- b. The Court did not keep records showing surcharge calculations for 2 of 12 monthly reports; therefore, we were unable to determine whether the Court paid a proper amount of surcharge to the State. Surcharge calculation records are necessary to establish support for the remittance to the State and to ensure that remittance amounts are proper.

#### **Recommendation:**

**We recommend that Court:**

- a. **Remit collected surcharge amounts to the State by the 10<sup>th</sup> of each month in compliance with State law.**
- b. **Maintain monthly reports supporting surcharge calculations.**

#### Town's Response:

*The Court will remit surcharges to the State by the 10<sup>th</sup> of each month and maintain monthly reports supporting the surcharge calculations.*