



# INTERNAL CONTROL REPORT

AN EVALUATION OF UTAH'S COUNTIES

February 2019

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**Office of the State Auditor**

[auditor.utah.gov](http://auditor.utah.gov)

## Local Government Division

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The Local Government Division ensures uniform accounting, budgeting, and financial reporting by Utah's local governments. This is done by providing consultation, budget forms, and uniform accounting guidelines and services for counties, municipalities, school districts, and local districts.

The Division reviews independent audits of all units of local government for compliance with reporting standards and conformity with generally accepted accounting principles and State law. The division also presents training to local government officials and the CPA's conducting governmental audits.

# Introduction

**\$7 billion.** That’s the estimated total losses in 2017 around the globe due to fraud and abuse. Of that \$7 billion, 16% or \$1.12 billion occurred in government.<sup>1</sup> Undetected risks speak to the integrity of governmental organizational values such as accountability to the taxpayer, reliability of services provided, and compliance with laws and statutes.<sup>2</sup> For this reason, internal control systems have become the benchmark standard for prevention of fraud, waste, and abuse in the state of Utah and its counties.<sup>3</sup>

*Utah Code 17-36-45* requires:

1. Each county commission or council to create a formal internal control structure.
2. The Office of the State Auditor (Office) to conduct a review of each county’s internal controls.

The Office completed a review of all 29 counties as of October 31, 2018. **The purpose of our review was to evaluate the design of the internal controls at each county and provide recommendations, where appropriate.** An evaluation of the implementation of internal controls may be the subject of a future review.

The Office conducted its review of internal controls based on statutory requirements as well as best practices.

By its nature, this report focuses on exceptions and weaknesses. This focus should not be understood to mean there are not also various strengths and accomplishments.

## What is Fraud & Abuse?

The Government Accountability Office (GAO) provides clear definitions of the following terms:

- ❖ **Fraud:** an illegal act of obtaining something of value through deception
- ❖ **Abuse:** the improper or misuse of authority

## What are Internal Controls?

The term “internal controls” is used to describe processes put in place by the governing body, management, or others to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include separating certain responsibilities so that no one person has the ability to improperly use money without detection. Internal control systems provide an organizational framework of checks and balances where compliance and ethical behavior are more likely to thrive.

According to the GAO, internal controls are not only “a key factor” in improving accountability, reliability, and compliance but also play an important role in helping local entities “achieve [their] mission.”<sup>4</sup>

<sup>1</sup> 2018 *Global Study on Occupational Fraud and Abuse*. Report. 10th ed. Austin, TX: Association of Certified Fraud Examiners, 2018. 1-79.

<sup>2</sup> *A Review of Best Practices for Internal Control of Limited Purpose Entities*. Salt Lake City, Utah: Office of the Legislative Auditor General, 2017. 9-16.

<sup>3</sup> *Ibid.*

<sup>4</sup> GAO. *Internal Control: Standards for Internal Control*

# Methodology

To determine the criteria for best practices in county government, the Office drew from industry standards, professional literature and its own experience. Following is an overview of the criteria used in our reviews:

## General Controls



There exist many general controls which an entity can implement as a means of preventing or detecting error and fraud. Examples include:

- Comparison of budget to actual spending.
- Monthly reconciliation of critical accounts.
- Supervisory review of payments, purchases, and payroll transactions.
- Required disclosure of conflicts.

We selected a few key practices and assessed whether they have been formally adopted by each county.

## Separation of Duties over Cash Accounts



Widely recognized as a crucial internal control, separation of duties includes separating the powers of the treasurer and controller<sup>5</sup> as required by state law. If the roles and responsibilities of treasurer and controller are *not* 1) separate, 2) independent

and 3) monitored by the commission or council, the risk of financial fraud and abuse increases.

In general, the treasurer is responsible for the collection and distribution of funds and the controller records the financial transactions the treasurer is performing. However, in Utah, county treasurers also have the duty to collect, record, and distribute real property taxes. Since the controller is not involved in the recording process for these funds, we assessed whether adequate controls are in place to protect county funds.

## Fraud Prevention and Detection



The Office has identified best practices to reduce the risk of undetected fraud, abuse, and noncompliance in our publication *Fraud Risk Assessment Implementation Guide*. This guide, along with other related documents, is available on our Local Government Resource Center website ([auditor.utah.gov/resources](http://auditor.utah.gov/resources)).

These best practices include:

- forming a formal audit committee with an internal audit function
- provide ongoing training
- utilizing qualified financial professionals to manage accounting
- written and signed statements on acceptable ethical behavior
- anonymous tip hotlines
- written policies in key areas

<sup>5</sup> For the purposes of this report, the term “controller” will be used to identify the chief financial officer because accounting services is a default duty of a county auditor per *Utah Code* 17-19a-205. However, we acknowledge that the accounting function may be performed under the office of a county clerk/auditor, manager, mayor or directly under the legislative body.

# Results

In the grid below, Q1-Q36i correspond to the questions on the *Internal Control Questionnaire for County Government*. We recommend the adoption of the best practice associated with each question. The recommendations and their corresponding question number can be found on the next page of this report. Each county's individual report is available at [auditor.utah.gov/local-government-2/publications/countyreview/](http://auditor.utah.gov/local-government-2/publications/countyreview/)

Note: ● = The recommended best practice has already been adopted.

	Q1-Q15	Q16	Q17	Q18	Q19	Q20	Q21	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30	Q31	Q32	Q33	Q34	Q35	Q36a	Q36b	Q36c	Q36d	Q36e	Q36f	Q36g	Q36h	Q36i	
Beaver		●	●	●		●	●	●	●	●	●	●	●	●				●					●	●	●	●		●	●	●	
Box Elder	●	●	●	●	●	●		●		●	●	●	●	●				●	●				●	●	●	●		●	●	●	
Cache	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●		●		●	●		●	●	●	
Carbon		●	●			●	●		●	●	●	●	●	●				●				●	●	●	●	●		●	●	●	
Daggett		●		●		●	●	●	●	●		●	●	●											●	●		●	●	●	
Davis	●	●	●		●	●	●	●	●	●	●	●	●	●				●	●		●		●	●	●	●		●	●	●	
Duchesne	●	●	●	●		●	●	●	●	●	●	●	●	●									●	●	●	●		●	●	●	
Emery	●	●	●	●	●	●	●	●	●	●	●	●	●	●				●	●	●		●	●	●	●	●	●	●	●	●	
Garfield		●	●	●		●	●	●	●	●	●	●	●	●											●	●		●	●	●	
Grand	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●					●		●	●		●	●	●	●	
Iron		●	●		●	●	●	●	●	●	●	●	●	●	●	●	●			●			●		●		●	●	●	●	
Juab			●	●	●	●		●	●	●		●	●	●				●					●	●	●			●	●	●	
Kane		●			●	●	●	●	●	●	●	●	●	●		●							●	●	●	●	●	●	●	●	
Millard		●	●	●		●	●	●	●	●	●	●	●	●	●	●	●			●			●	●	●	●	●		●	●	●
Morgan	●	●	●	●	●	●	●			●	●	●	●	●			●	●	●				●	●	●	●		●	●	●	
Piute		●		●		●	●	●		●	●	●	●	●										●	●	●		●	●	●	
Rich		●	●	●	●	●	●	●	●	●			●	●											●						
Salt Lake	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●			●	●	●	●	●	●	●	●	●	
San Juan		●		●	●	●	●	●		●		●	●	●											●		●	●	●	●	
Sanpete	●	●		●	●	●	●	●	●	●	●	●	●	●									●		●		●	●	●	●	
Sevier		●	●	●	●	●	●	●	●	●	●	●	●	●		●				●			●	●	●	●		●	●	●	
Summit		●	●	●	●	●	●	●	●	●		●	●	●			●		●						●	●		●		●	
Tooele	●	●	●	●		●	●	●	●	●	●	●	●	●			●	●					●	●	●	●	●	●	●	●	
Uintah			●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			●			●		●	●	●	●	●	●	
Utah			●	●	●	●	●	●		●		●	●	●		●	●	●	●						●	●	●	●		●	
Wasatch				●	●	●		●	●			●	●	●				●					●		●	●	●	●	●	●	
Washington	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			●	●				●	●	●	●	●	●	●	●	
Wayne			●	●		●	●	●	●	●		●	●	●					●					●	●				●		
Weber	●	●	●	●	●	●		●	●	●		●	●	●	●	●	●	●	●	●	●			●	●	●	●	●		●	

# Recommendations

## **INADEQUATE SEPARATION OF DUTIES OVER CASH ACCOUNTS**

Q1-Q15 We recommend the county separate the duties of record keeping and reconciliation of both the property tax collection account (Treasurer's Trust Account) and the county operating accounts. This should be accomplished by having a person outside of the treasurer's office directly receive the bank statements from the bank and perform the bank reconciliation of the Treasurer's Trust Account. Also, someone within the treasurer's office should directly receive the bank statements from the bank and reconcile all county operating accounts.

## **INADEQUATE GENERAL INTERNAL CONTROLS**

- Q16 We recommend the county provide management with monthly financial reports that compare current year-to-date spending to the budget.
- Q17 We recommend the county perform a monthly reconciliation of all bank accounts.
- Q18 We recommend the county prepare monthly reconciliations of all balance sheet accounts with significant balances.
- Q19 We recommend the county ensure that a list of all payments (checks, cash withdrawals, wire transfers, and ACH) is reviewed and signed by the commission.
- Q20 We recommend the county perform a monthly reconciliation of petty cash.

- Q21 We recommend the county provide a detailed tracking of awarded cash and gift cards, including award type (cash vs. gift card, noting retailer), recipient names, and dates and amounts awarded.
- Q22 We recommend the county implement procedures to prevent or detect unauthorized use of funds received through Paypal or other internet payment services.
- Q23 We recommend the county implement procedures to prevent or detect erroneous or unauthorized payroll payments.
- Q24 We recommend the county implement procedures to ensure that a non-subordinate of the credit or purchase card holder reconciles original receipts to original statements to ensure all transactions are appropriate, authorized, and supported by documentation.
- Q25 We recommend the county implement a policy that ensures officers or employees disclose conflicts of interest in accordance with *Utah Code* 17-16a.
- Q26 We recommend the county implement a policy that establishes an amount over which a purchase must go through a public bid process.
- Q27 We recommend the county implement a procedure to ensure that all payment requests are reviewed for authorization prior to payment.
- Q28 We recommend the county implement a procedure to ensure that all payment requests are reviewed for budgetary compliance prior to payment.

## Recommendations, cont.

### **BEST PRACTICES TO REDUCE RISK OF FRAUD, ABUSE AND NONCOMPLIANCE**

- Q29 Systematically measure the effectiveness of internal controls by implementing a formal internal audit function.
- Q30 Maintain a hotline where citizens and employees can anonymously report fraud, abuse or noncompliance or provide a link to the hotline maintained by the Office of the State Auditor.
- Q31 Ensure internal controls and financial reporting are reliable by implementing a formal audit committee.
- Q32 Strengthen financial sophistication by ensuring that a member of the management team has at least a bachelor's degree in accounting, and where possible, a CPA license.
- Q33 Facilitate awareness of current regulations and best practices by ensuring that at least one member of the management team receives at least 40 hours of formal training related to accounting, budgeting, or other financial areas each year.
- Q34 Promote awareness of ethical dilemmas by requiring all employees, board members and elected officials to sign an annual statement of commitment to acceptable ethical behavior.
- Q35 Reinforce understanding of financial concepts and requirements by having commission/council members complete the Office of the State Auditor's online training for county officials at least once every four years.
- Q36 Establish requirements and expectations by having written policies in the following areas:
- 36a Reporting fraud or abuse
  - 36b Conflict of interest disclosure
  - 36c Ethical behavior
  - 36d Entity-related travel
  - 36e Credit/purchasing cards (where applicable)
  - 36f Cash receipting and deposits
  - 36g Purchasing
  - 36h Personal use of entity assets
  - 36i IT and computer use