



OFFICE OF THE
STATE AUDITOR

Case # SCOF22SP

November 15, 2022

Mayor Jim Levanger and Scofield Town Council
HC 35 Box 560
Scofield, UT 84526

Dear Mayor Levanger and Town Council Members:

The Office of the State Auditor (Office) offers a hotline program through which we receive complaints with financial or compliance implications related to state or local governments. The Office received a complaint alleging potential misuse of public funds and noncompliance at Scofield Town (Town).

We reviewed relevant Town documents and made inquiries with certain Town personnel for the period of July 2018 through May 2022. We were not able to substantiate the misuse of public funds allegations. However, during the course of our review, we identified key internal control weaknesses (see Findings 1–4). We also identified best practices the Town should implement to improve its oversight (see Findings 5–6).

1. INADEQUATE SEPARATION OF DUTIES

Proper separation of duties is one of the most effective internal control measures any organization can take to increase the chances of detecting errors and reduce the risk of fraud. When any single person has excessive control over transactions or critical functions, it creates a significant risk that errors, misappropriation, or fraud could occur without detection. To properly safeguard public funds, separate individuals should perform the duties of: 1) authorizing transactions; 2) record keeping; 3) custody of funds; and 4) reconciliation to bank records. When separation is not possible, the entity must implement additional review and reconciliation controls to compensate for the weaknesses.

The Town has made efforts to separate duties and implement compensating controls. However, there are additional improvements the Town can make to help ensure erroneous or unauthorized activity does not occur without detection. The Town's procedures should include the following:

- *Independent review of the monthly bank reconciliation.* The Town's monthly bank reconciliation is not performed by someone independent. In order to be independent, the reconciliation must be prepared by someone who does not record transactions (record keeping) or have custody of funds. The reconciliation process should include matching recorded transactions to original bank records, such as images of processed checks and original bank statements. If an independent reconciliation is not possible, the Town should ensure that there is an independent

detailed review of the bank account reconciliation that incorporates reviewing images of processed checks and the original bank statement.

- *Independent review to ensure that all funds received were recorded and deposited to the bank.* There is no independent review to ensure that all funds received were properly recorded and deposited. The Town should implement a procedure that creates a reliable and independent record of payments received that is independently compared to the validated deposit slip and the accounting records to ensure all payments received are recorded and deposited.
- *Independent review of accounts receivable adjustments.* Adjustments to the utility billing system, including deletions, write-offs, and other adjustments, are not reviewed by someone who does not have record keeping duties or custody of funds. All adjustments should be reviewed by someone independent to ensure the adjustments were proper, accurate, and approved.
- *Independent review of credit card transactions.* Credit card purchases are not regularly reviewed by someone who does not have access to the credit cards. Credit card transactions, including original receipts from the purchaser and original statements from the credit card company, should be reviewed by someone independent to ensure that all transactions are reasonable and proper and are in compliance with Town procurement policy.

The absence of these compensating controls increases the risk that errors, misappropriation, and fraud could occur without detection.

Recommendation:

We recommend the Town ensure adequate separation of duties or implement adequate compensating controls. The Town should implement procedures that provide key internal controls such as those described above.

2. INADEQUATE PROCUREMENT POLICY

We reviewed the Town's written policies and procedures and noted that the procurement policy does not provide guidance for certain common and important procurement considerations. These considerations include, but are not limited to:

- Sole source procurements
- Emergency procurements
- Contract procurements (requests for proposal, bid evaluation and management, maximum contract terms, etc.)

The Town's policy should provide sufficient guidance to increase transparency, create a fair and equitable procurement environment, lower costs, and foster effective competition.

Recommendation:

We recommend that the Town implement a comprehensive procurement policy that incorporates adequate guidance for common procurement considerations they are likely to encounter.

3. IMPROPER TRAVEL REIMBURSEMENT

One Town employee improperly received a \$20 reimbursement for travel to a conference held in St. George. Since this \$20 purchase was made using the Town credit card, it should not have been included in the employee's reimbursement. It appears this was most likely caused by an oversight as we did not find more than one occurrence. The Town should thoroughly review employee reimbursement requests to ensure accuracy and propriety.

Recommendation:

We recommend that the Town review employee reimbursement requests more thoroughly to ensure accuracy and propriety. We also recommend that the Town employee reimburse the overpayment to the Town.

4. INADEQUATE ASSET RECORDS AND INVENTORY

The Town does not maintain a listing of fixed and pilferable assets, does not tag assets with a Town ID, and does not perform an annual asset inventory. The lack of adequate asset records and inventory could result in errors or loss of assets occurring without detection. The Town should maintain a listing of all fixed and pilferable assets, tag these assets with a Town ID, and perform an annual inventory to ensure accurate records and safekeeping of Town assets.

Recommendation:

We recommend that the Town maintain a listing of all fixed and pilferable assets, tag the assets with a Town ID, and perform an annual asset inventory.

5. INCREASED RISK BY USING CREDIT CARDS VERSUS FUEL CARDS

The Town uses credit cards for fuel purchases rather than utilizing the State's fuel card program. Due to the lack of detailed information provided by the credit card statements, we were unable to determine with certainty whether fuel purchases were proper. The Town should utilize the State's fuel card program and fuel network, which can provide as well as better controls and tracking of fuel purchases and consumption.

Recommendation:

We recommend the Town adopt the use of fuel cards rather than using credit cards for the purchase of fuel.

6. INCREASED RISK BY USING CREDIT CARDS VERSUS PURCHASE CARDS

Town personnel regularly use Town credit cards for expenditures. The use of credit cards can be an efficient method of making purchases, especially small dollar purchases or “micro-purchases.” However, credit cards by their nature have a high risk of improper use because an entity must rely heavily on detective controls to reduce the risk of abuse. Alternatively, the use of purchase cards (p-cards) can add preventative controls that further help reduce the risk of misuse. For this reason, we consider the use of p-cards a best practice that the Town should implement.

Recommendation:

We recommend the Town adopt the use of purchase cards, rather than using credit cards.

Our procedures were limited to matters related to the complaint. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you. We appreciate the courtesy and assistance extended to us by Town personnel during our review. We look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Leslie Larsen".

Leslie Larsen, CPA, CFE
Special Projects Audit Supervisor
leslielarsen@utah.gov
801-808-0379

4. INADEQUATE ASSET RECORDS AND INVENTORY

The Town is creating a list of fixed and pilfer-able assets and will label them as Town Property. These lists will be reviewed and updated annually.

5. INCREASED RISK BY USING CREDIT CARDS VERSUS FUEL CARDS

The Town has instituted a practice of including the current odometer or hour reading on fuel receipts for the pump trucks and the backhoe to better track fuel use. We will look into the UT State Fleet Services fuel card program to see if it is a good fit for our Town.

6. INCREASED RISK BY USING CREDIT CARDS VERSUS PURCHASE CARDS

Monthly Town credit card purchases are usually limited in number and are mostly fuel related and easily tracked. The low limits on each card keep help to keep our risk lower. We will continue to be vigilant in requiring receipts for all purchases and monitor our monthly credit card billing for accuracy. We will look into purchasing cards but adding a monthly review and approval of the credit card bill by the Treasurer will tighten up the control and lessen any chance of error or incorrect charges.

Thank you for your professional help throughout this process. Please let me know if you need anything else.

Sincerely,

A handwritten signature in cursive script that reads "Jim Levanger".

Jim Levanger
Scofield Town Mayor
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435 4498-9221