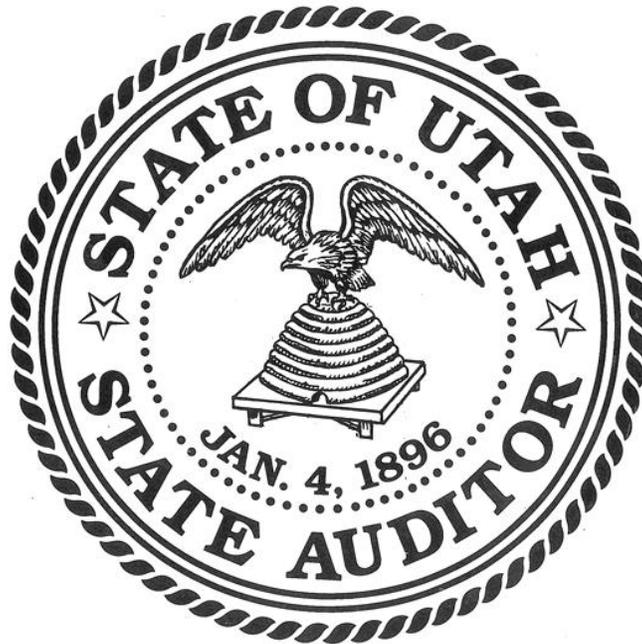


UTAH COMMUNICATIONS AUTHORITY

Review of Internal Controls

Findings and Recommendations
For the Period January 2014 through January 2016

Report No. UCA-16-SP2



OFFICE OF THE UTAH STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Van Christensen, CPA, CFE, Audit Director
Melanie Henderson, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. UCA-16-SP2

August 9, 2016

Tina L. Mathieu, Chair
Utah Communications Authority Board
5360 South Ridge Village Drive
Salt Lake City, Utah 84118

Dear Ms. Mathieu:

We have completed our review of internal controls at Utah Communications Authority (UCA). We also tested controls over a sample of cash disbursement transactions occurring from January 2014 to January 2016. Our findings resulting from the review are included in the attached Findings and Recommendations section of this report.

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

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 UCA during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact Melanie Henderson, Audit Supervisor, at 801-739-2247 or mhenderson@utah.gov.

Sincerely,

Van Christensen, CPA, CFE
Audit Director
801-538-1394
vchristensen@utah.gov

cc: Jack Hunt, Interim Director, Utah Communications Authority

UTAH COMMUNICATIONS AUTHORITY
FOR THE PERIOD JANUARY 2014 THROUGH JANUARY 2016

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FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2014 THROUGH JANUARY 2016

BACKGROUND

In January 2016, the Utah Communications Authority (UCA) identified theft by the former administrative assistant and her daughter upon which the administrative assistant immediately left employment. An investigative firm hired by UCA's Board of Directors identified over \$800,000 of purchases using UCA credit cards for personal use. The former administrative assistant admitted to the theft. After the investigation, the executive director and consulting accountant resigned. (See Report No. PA16-01, A Performance Audit of Utah Communications Authority Financial Management and Transparency, released by the Office of the Utah State Auditor on May 18, 2016.)

The purpose of this review of internal controls over areas other than credit cards was to determine whether other weaknesses may exist that could allow theft to occur and to assist the Board in strengthening procedures going forward. As a result of our review, we identified internal control weaknesses in multiple areas as indicated in our findings below.

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE SEPARATION OF DUTIES

We evaluated internal controls over significant transaction classes at UCA including cash receipts, cash disbursements (excluding credit card disbursements), inventory, and fixed assets. We identified several weaknesses related to a lack of adequate separation of duties that would allow errors or theft to occur without detection.

Inadequate separation of duties occurs when the same individual has the ability to authorize transactions, adjust the accounting records, prepare the bank reconciliation, and access cash/checks. In situations where it is impractical to separate duties, additional controls should be implemented. In this case, adequate compensating controls could include independent reviews or reconciliations.

a. Bank Reconciliations

The former consulting accountant was able to record transactions in the accounting system and also reconcile the accounting information to the bank account. Without any additional reviews, the consulting accountant had the ability to conceal improprieties identified in the bank reconciliation by adjusting the accounting records. Prior to January 2016, the former executive director was reviewing bank reconciliations; however, we were unable to determine if this review was adequate to address the separation of duties issues with the former consulting accountant. In addition, as of January 2016 *no* review of the bank reconciliation was evident, creating a risk that UCA funds could be misused without detection.

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FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2014 THROUGH JANUARY 2016

b. Cash Receipts

The former consulting accountant had access to the accounting system and also prepared the deposit. As such, the consulting accountant had the ability to take cash/checks received and make adjustments in the accounting system to conceal the theft. UCA should either separate these duties or have someone besides the consulting accountant reconcile the cash receipts log to the validated deposit slips.

c. Payroll Disbursements

The former consulting accountant reconciled the accounting system to the payroll service. However, she also had the ability to change payroll information in the accounting system prior to the payroll run without an additional review by anyone else. Therefore, the former consulting accountant could potentially have changed payroll information or create a fictitious employee without detection.

Recommendation:

We recommend that UCA implement policies and procedures to adequately separate duties or establish compensating controls as follows:

- a. Have someone without access to the accounting system perform the bank reconciliation or ensure that an independent person review the bank reconciliation.**
- b. Have someone without access to the billing function in the accounting system prepare the deposits, or have someone besides the consulting accountant reconcile the cash receipts log to the validated deposit slip.**
- c. Have someone without access to the payroll function in the accounting system perform the payroll service reconciliation.**

2. PROCUREMENT AND DISBURSEMENT POLICIES NOT IMPLEMENTED

We evaluated internal controls over cash disbursements, including compliance with UCA procurement policy. When UCA was created in 2014, it informally adopted the policies used by the Utah Communications Agency Network (one of the entities combined to create UCA). Those policies have the following requirements:

- All purchases of supplies and services are to be approved in advance with a purchase order.
- Before payment is made, the invoice is to be compared to any related shipping documents and the approved purchase order.
- State contracts are to be used whenever possible.

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FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2014 THROUGH JANUARY 2016

- For purchases between \$1,000 and \$5,000, two telephone bids are to be obtained and the purchase made for the lowest price.
- Any purchases over \$5,000 not purchased on state contract require three written bids.
- Check signers are to review supporting documents to ensure payment is appropriate and compliant with policy before signing checks.

We selected 25 cash disbursements made by UCA between January 1, 2012 and January 31, 2016. We excluded credit card payments since these disbursements were adequately covered in various other audits. We reviewed each of our sample items for compliance with procurement policy, proper approval, adequate documentation, and reasonableness. We identified the following issues with 13 of our 25 sample items:

- Five transactions did not have evidence of proper approval.
- Six transactions did not have evidence of adequate shipping documents to indicate that purchased items were received before the invoice was paid.
- Five transactions did not have documentation indicating compliance with bid requirements.
- One transaction did not have adequate documentation available to support the payment.

Failure to implement effective internal controls by adopting, implementing, and enforcing formal written policies over procurements and cash disbursements could result in error or theft.

Recommendation:

We recommend that UCA formalize, in writing, its policies related to procurement and disbursements in order to prevent the risk of additional loss through error or theft and ensure that employees comply with established policies.



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Utah Communications Authority ("UCA") hereby takes the opportunity to respond to Report No. UCA-16-SP2 (the "Audit") written by the Office of the Utah State Auditor ("OSA"). UCA expresses its gratitude for the efforts of those who performed this audit and the recommendations provided therein. As a consequence of recent events, UCA, concurrent with the Audit, has evaluated a large number of its processes, procedures, and practices and has implemented significant changes. Most of the recommendations in this report have already been voluntarily addressed by UCA. UCA's Governing Board (the "Board") takes comfort in knowing that the office of OSA agrees with the changes UCA has made. Any recommendations that have not yet been implemented will be incorporated in the near future.

Recommendations related to Finding 1 - Inadequate Separation of Duties

We believe UCA is in compliance with the three recommendations made by OSA by outsourcing the financial aspects of the organization to an outside, independent, accounting firm. The firm has multiple people assigned to our account which helps create the separation of duties UCA has lacked in the past. Furthermore, UCA will work to make the appropriate changes to its policies, as necessary, to ensure that this separation of duty is maintained when UCA hires its permanent financial personnel.

Recommendations related to Finding 2 - Procurement and Disbursement Policies Not Implemented

On May 9, 2016 the Board held a special meeting in order to adopt the State Procurement Code by resolution. Since that time UCA has worked with the representatives of the State purchasing division to ensure that we are following the procurement code. In addition, the Board has made several changes to UCA's policy manual, including the purchase card policy, in an effort to reduce the risk of additional loss and ensure that purchases by UCA are transparent and have followed an appropriate approval process.

In conclusion, as noted previously, UCA appreciates the recommendations from OSA and the efforts that it has taken to help UCA ensure that it is in compliance with the law, has sound financial management, and continues its transparency. UCA and its Board are committed to continuous improvement.

Tina Mathieu
Chair of UCA's Governing Board

Bryan Low
Treasurer of UCA's Governing Board and
UCA Audit Committee Chair

Jason Nielson
UCA Audit Committee Member

Mike Mathieu
UCA Audit Committee Member