A PERFORMANCE AUDIT
OF
THE UTAH COUNTY TREASURER'S OFFICE

March 1987

REPORT TO
UTAH COUNTY BOARD OF COUNTY COMMISSIONERS
Report No. 87-2

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TO: The Utah County Board of County Commissioners

Transmitted herewith is our report, A Performance Audit of the Utah County Treasurer's Office, Report No. 87-2. The audit objectives and scope are explained in the foreword.

We will gladly meet with the Audit Management Committee, the Board of County Commissioners and other County officials to discuss or clarify any item contained in the report or to facilitate implementation of the recommendations.

Sincerely,

Joseph M. Higbee
Director UCIAD

FOREWORD

To meet the statutory responsibilities of the Utah County Treasurer's Office, all financial transactions, records and controls must safeguard the acquisition, custody, and use of public funds. Furthermore, operating methods, procedures and controls should enhance resource utilization.

The Utah County Internal Auditing Division was asked to examine the cash management system developed by the Treasurer's Office to meet these objectives. Overall, we found that public resources are well protected and properly utilized. Furthermore, we feel that the Utah County Treasurer's Office should be commended for the responsible manner in which the public trust has been promoted.

Many of the outstanding contributions provided by the Treasurer's Office on the public's behalf, deserve mention. Specifically, over the past 12 years, the statutory duties of the Treasurer's office have been met without substantial budgetary increases. Additionally, when the current administration assumed office in 1975, they began investing idle public funds and have since earned just under 10 million dollars in interest. Such achievements have helped Utah County keep taxes low while improving the services offered to the public.

Although the Utah County Treasurer's Office has been responsive to the public demand for lower costs and improved services, cash resource utilization can be enhanced even further. The following report focuses on our recommended improvements.

AUDIT SCOPE AND OBJECTIVES

This report completes another phase of an ongoing cash control review of all Utah County departments.

During the survey portion of the audit, we evaluated the methods and procedures used by the Treasurer's Office to collect and process cash receipts. Based on the tests conducted, we found that cash receipts are processed quickly and effectively, and that all transactions are duly documented. Furthermore, our research shows that all cash collections are adequately safeguarded from loss, theft and fraud. Consequently, this report does not concentrate on the daily operating methods and procedures used by the Treasurer's Office.

Specifically, the audit addressed the following objectives:

1. Determine whether the Treasurer's Office has obtained an automated and modern accounting system as recommended by the County's independent Certified Public Accountant (CPA) for the past 5 years.

2. Determine whether the Treasurer's Office utilizes the Utah State investment pool to invest idle funds that need to be fairly liquid.

3. Determine whether the Treasurer's Office periodically monitors and evaluates the banking costs associated with the County's general-fund and tax accounts, to ensure the costs and services provided are competitive.

Our examination was conducted in accordance with the United States General Accounting Office, **"Standards for Audits of Governmental Organizations, Programs, Activities and Functions,"** and within the statutory requirements of the Office of the Utah County Auditor. Accordingly, our work includes such tests and other auditing procedures necessary to collect evidence in support of our conclusions and recommendations.

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Audit Performed by:

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CHAPTER I

INTRODUCTION

The Utah County Treasurer's Office is charged by law with the safe care and custody of all cash receipts and revenues collected in behalf of the various governing entities within the County. To meet these statutory requirements, the Treasurer's Office must manage nearly 76 million dollars generated annually through: (1) real property taxes; (2) personal property taxes; and (3) general-fund revenues.

Real and personal property taxes provide operating revenue for local school districts, cities and municipalities. For the year ending December 31, 1986, the County will have processed approximately 56 million dollars in real and personal property tax revenues. The collection of these tax revenues requires the Treasurer's Office to act in a fiduciary capacity to ensure each entity receives its due share of public funds.

In addition to administering these tax revenues for other government entities, during 1986 the County will also have collected nearly 20 million dollars in general-fund revenues. These funds were generated through fines, fees and governmental transfers, and are used to administer the County government's own operations.

To meet the legal requirements of the Treasurer's Office, a cash management system has been developed to safeguard public funds from loss, theft, fraud and misuse. The Utah County Internal Auditing Division was asked to review this system to determine its effectiveness. Overall, we have found that in accordance with Utah law, the Utah County Treasurer's Office has a respectable cash management system.

To assess the County's system, we identified several essential cash management objectives. According to the experts, a good cash management system establishes control over: (1) the receipts; (2) the disbursements; (3) the investments; (4) the banking; and (5) the accounting of all cash flowing into and out of County government. Specifically, an effective cash management system collects cash receipts quickly and deposits them immediately, pays all bills on time but not before they are due, and invests idle funds in safe, legal investments to earn as much interest as possible while maintaining sufficient cash reserves to meet current operating needs. A good cash management program will further make certain that banking and other professional financial services are utilized effectively. To facilitate these objectives, an effective accounting system is needed to provide the timely, relevant, and reliable information fundamental to effective decision-making.

Using these objectives of good cash management, we examined the Treasurer's Office and found a system which has enhanced the County's use of available resources. By investing idle funds, for example, the Treasurer's Office earned just under 2.5 million dollars over a 33 month period beginning January 1984 and ending October 1986. These interest earnings represent income to the County and to the other governing entities that was not raised through taxes. Such achievements have helped keep Utah County's tax levy one of the lowest in the State, and are a credit to the Treasurer's Office.

Although we found Utah County's cash management program to be generally effective, we were able to identify some improvements that can further enhance the use of public funds. The Treasurer's Office can better optimize Utah County's cash resources: (1) by modernizing the current accounting system used in the Treasurer's Office and by developing written policies and procedures governing cash management county-wide. (2) by expanding the current investment strategies to include greater use of the State-sponsored investment pool; and (3) by monitoring banking service costs. An additional $239,000 in earnings and savings were possible, had these improvements been in place during the 33 months covered by our study.

The following paragraphs briefly highlight our findings and recommendations. They further identify the specific chapters in which we have provided a more comprehensive discussion of the issues.

1. By modernizing its accounting system, the Treasurer's Office can develop the kind of information necessary to identify cash-flow needs, monitor investments, review banking costs and generally optimize Utah County's cash resources. Over the past 5 years, the County's independent CPA has strongly urged the Treasurer's Office to modernize its accounting processes. However, the accounting methods used by the Treasurer's Office remain unchanged. In addition to needed modernization of the accounting system, written policies and procedures would help the Treasurer's Office, the Board of County Commissioners, and the County Auditor govern County-wide cash management. Chapter IV demonstrates how a modernized accounting system and written policies and procedures can strengthen and improve cash management.

2. By expanding the County's strategy for short-term (less than ninety-day) investments to include greater use of the State investment pool, by monitoring the County's bank accounts to ensure all balances in excess of the minimums required are invested, and by using the State investment pool to transfer State-collected

revenues to the County, additional investment earnings are available. According to the State Auditor, if a public treasurer is going to invest in something other than the State-sponsored investment pool, the alternate investments should yield higher interest earnings than those offered by the pool. Chapter II shows how an additional $226,000 could have been earned had Utah County utilized this very inexpensive investment resource during the 33 months identified.

3. Through improved monitoring of banking service costs, the County Treasurer's Office should be able to cut expenses without affecting service. As custodian of the County's cash management system, the Treasurer's Office should be monitoring the costs of doing business for both bank accounts it uses to process County revenues and disbursements. Without any monitoring of the County's two major bank accounts for the 33 months specified, the associated costs were not competitive. For example, the costs for one account were $13,000 higher than necessary. Furthermore, the actual costs associated with both accounts have been obscured by high bank balances. Chapter III demonstrates a need for the County to monitor banking costs to ensure they are competitive and justifiable.

CHAPTER II

A MODERNIZED ACCOUNTING SYSTEM AND WRITTEN POLICIES AND PROCEDURES CAN IMPROVE CASH MANAGEMENT

As mentioned, the Treasurer's Office has developed a cash management system that safeguards public resources from loss, theft, fraud and misuse. However, an automated, modern accounting system can help enhance the efficiency and effectiveness of existing cash management controls. Furthermore, the formulation and adoption of written policies and procedures can help govern cash management activities county-wide: policies to provide guidance and procedures to explain how work will be done. With these changes, a good cash management system can become even better.

The first of the following two sections identifies the need for the Treasurer's Office to upgrade and computerize its current accounting system. The second section explores the need for the Treasurer's Office to help the Board of County Commissioners and the County Auditor, formulate and develop an adequate set of written policies and procedures governing cash management County-wide.

Computerized Accounting Provides Necessary Information

Over the past 5 years, Utah County's independent CPA has urged the Treasurer's Office to modernize and computerize its accounting system to improve overall cash management. Without computerized accounting information readily available, the Treasurer's Office has been unable to identify cash-flow needs, monitor investments, review banking costs and generally, optimize Utah County's cash resources.

According to the County's Computer Center, an accounting program was developed for the Treasurer's Office three years ago, but was deleted when the system was updated. However, the Treasurer's Office was not aware that any programs had been developed and was never invited to provide input. Consequently, the accounting system used by the Treasurer's Office remains unchanged.

Although an optimal accounting program has yet to be developed, good accounting programs are readily available.

Perhaps with some modification, the accounting program used by the County Auditor's Office can be adapted to enhance the accounting information currently provided by the Treasurer's Office. According to the County's independent CPA, the accounting needs for both the Treasurer's Office and the Auditor's Office are similar and existing accounting programs can likely be modified for mutual use.

The County's independent CPA has indicated that computerized accounting would further facilitate his annual audit of the Treasurer's Office. Some of the improvements provided by a fully automated accounting system include: (1) the elimination of manual accounting transactions; (2) the development of cash forecasting techniques; (3) the establishment of an accounts receivable system for delinquent tax collections; and (4) the development of a system that accounts for the overpayment of taxes. In addition to the efficiency and effectiveness of such enhancements, the CPA believes these changes would reduce his annual audit costs.

Recommendation

1. We recommend that the County Treasurer's Office adopt and implement the accounting recommendations cited by the County's independent CPA. Specifically, a computerized accounting system should be developed to:

    a. Eliminate manual accounting transactions;

    b. Provide for cash forecasting;

    c. Establish an accounts receivable system for delinquent tax payments; and

    d. Account for tax overpayments.

Written Policies And Procedures Help Establish County-Wide Cash Controls

Over the past 8 years, the Treasurer's Office has repeatedly requested the formulation and adoption of comprehensive cash management policies to help manage Utah County's cash revenues. These requests have been directed at both the Board of County Commissioners and the County Auditor's Office. However, specific responsibility for cash management in Utah County has never been established and policy needs have not been addressed. Without either written policies or a clear understanding of responsibilities, efforts to manage cash have been minimized.

Recently, we asked the Civil Division of the Utah County Attorney's Office to determine who has ultimate responsibility for all cash collected and processed by the County. In a written response, the Attorney's Office indicated that the Board of County Commissioners shares this responsibility with the County Auditor's Office. However, this responsibility is limited to the receiving of cash at the various points of collection. Once cash has been collected and deposited with the Treasurer's Office, that office assumes full responsibility for the safe care and custody of the cash.

With three County offices sharing similar duties, specific responsibilities must be clearly identified. In our opinion, the only way to meet this objective is through the adoption of written policies and procedures that govern the County's entire cash management process. Furthermore, all 3 offices ought to assist in the development of written policies and procedures to ensure their specific needs are met.

According to the Treasurer's Office, cash management policies should help regulate the timing of budgetary expenditures and eliminate surprises. Furthermore, the Treasurer's Office believes effective policies can help stabilize investment strategies and increase interest earnings by reducing the high balances in the County's general-fund and tax accounts. In support of these ideals, cash management experts suggest that written policies and procedures help govern and optimize the use of public funds.

Recommendations

1. We recommend that the Board of County Commissioners, the County Auditor's Office and the County Treasurer's Office plan, organize, write and implement comprehensive cash management policies to coordinate the efforts of all departments that collect cash. Specifically, these policies should ensure that:

    a. Cash is collected quickly and deposited in the Treasurer's bank account as soon as possible;

    b. Bills are paid on time but not before they are due;

    c. Idle funds are invested in safe, legal investments to earn as much interest as possible while maintaining sufficient cash reserves to meet current operating needs;

d. Banking services are competitive and utilized effectively; and

e. Accounting information is timely, relevant and reliable.

2. We recommend that the Board of County Commissioners, the County Auditor's Office and the County Treasurer's Office, together, organize a computer steering committee to ensure the development of cash management programs. These programs should ensure that:

   a. All cash management processes county-wide safeguard public funds; and

   b. The investment potential of public funds is being optimized.

CHAPTER III

INTEREST EARNINGS ON IDLE MONIES CAN BE INCREASED

As required by Utah's Money Management Act, the Utah County Treasurer's Office has developed a program for investing surplus and idle cash. Overall, this investment program has been successful. However, additional investment opportunities are available through the State investment pool which may further enhance the County's interest earnings.

To evaluate the County's investment program, 181 investments for the 33 month period beginning January 1984 and ending October 1986 were reviewed. To its credit, the Treasurer's Office earned just under 2.5 million dollars in non-tax revenues by investing idle funds from Utah County's tax and general-fund accounts. Such earnings have helped keep the County's tax levy one of the lowest in Utah, and the Treasurer's Office should be commended.

Although the County Treasurer's investment program is commendable, additional interest earnings may be available through three improvements. The County can better optimize the use of public resources: (1) by monitoring the County's bank accounts to ensure all balances in excess of the minimums required are invested with the State investment pool ; (2) by expanding the County's strategy for short-term (less than ninety-day) investments to include greater use of the State Treasurer's investment pool; and (3) by utilizing the State investment pool to transfer State-collected revenues to the County. An additional $226,000 could have been realized, had this resource been fully utilized during the 33 months examined.

The State investment pool was established to provide a way for local units of government to invest idle funds in safe, legal securities at higher rates of interest than typically offered through local banking accounts. The professional services provided by the pool are available to all public treasurers in the State at very low costs, less than one tenth of one percent of the interest earned. By utilizing the pool, local treasurers do not have to spend either a lot of time managing an investment program, or money hiring professional expertise. Utah's State Auditor believes that unless better investment opportunities are available, all excess and idle funds that need to be fairly liquid should be invested with the State investment pool.

The following three sections identify how the Treasurer's Office should modify its investment program to take full advantage of these opportunities. The first section indicates

how, with automated cash forecasting techniques, the County can better optimize the investment potential of the County's excess bank balances through improved utilization of the State investment pool. The second section discusses the need to more fully utilize the short-term investment opportunities available through the State investment pool. The third section discusses how State-collected revenues can be deposited directly with the State investment pool to begin earning interest immediately.

Investment Earnings From Idle Monies Are Limited By Excessive Daily Balances

According to cash management experts, balances in local government bank accounts should not exceed the daily operating demands. In fact, these experts claim that an organization is effectively managing its cash resources when 90 to 95 percent of its idle cash is invested. However, these excess funds should be invested in a way that will optimize interest earnings, yet keep needed funds available to meet obligations. The State Treasurer's investment pool was designed to meet these kinds of investment needs.

To operate effectively, Utah County usually requires approximately $70,000 a day in its general-fund account. However, for the 33 months we reviewed, the average daily balance for the general-fund account was $850,000, nearly 13 times more than required. According to the Treasurer's Office, the account balance was high due to a lack of automated and computer assisted cash forecasting as discussed in Chapter II.

Furthermore, tax revenues are not disbursed until the tenth of each month. Given this precise time constraint, idle funds could be invested with the State pool until the day they are needed. However, the tax account had an average daily balance of 1.9 million dollars for the same 33 months. Computerized cash forecasting would not significantly impact the management of these funds.

Utah County has maintained excessive daily balances in both its general-fund and tax accounts. Although both the banks involved pay minimal interest on the balances they hold, the interest rates are lower than those available through the State investment pool. Given the added advantages of cash forecasting, had the Utah County Treasurer's Office utilized this inexpensive resource for the 33 months reviewed, an additional $174,000 in interest earnings would have been realized.

Recommendation

1. We recommend that the Treasurer's Office immediately reduce the excessive daily cash balances maintained in both the general-fund and tax accounts. Unless higher investment returns are available, these funds should be placed with the State investment pool.

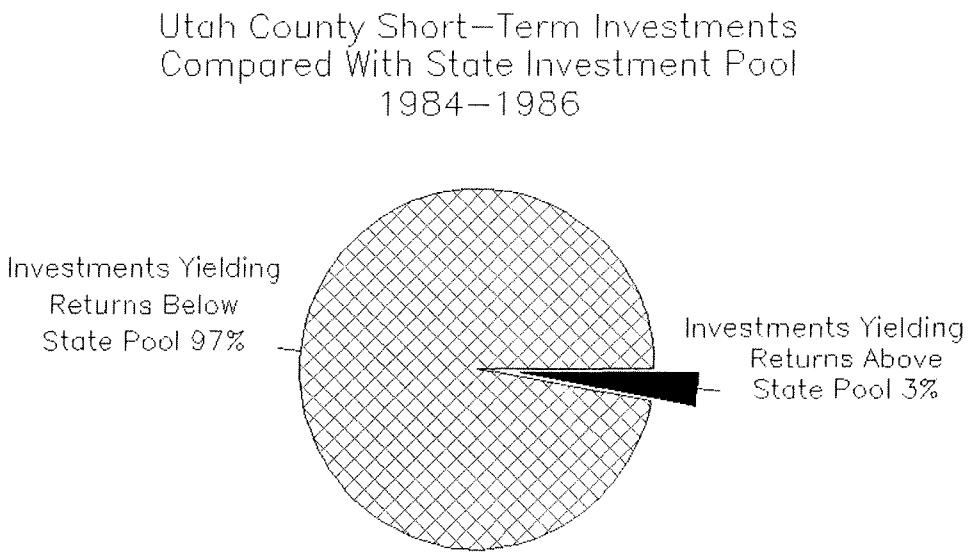
State Pool Investments Can Enhance Short-Term Interest Earnings

Enhanced interest earnings are available not only by investing idle bank balances in the State investment pool, but by using the pool for other short-term investments now being made elsewhere. Although the County's overall investment program has been effective, the rate of return for those investments purchased for less than 90 days was consistently lower than what was available through the State investment pool.

For the 33 months reviewed, the County purchased 181 investments. Ten percent of those investments were purchased for periods greater than 90 days, and ninety percent were purchased for less than 90 days. While the County received competitive returns on its longer-term investments, the shorter-term investments consistently earned lower investment yields than those offered by the State pool. Had these short-term investments been placed with the State pool, an additional $43,000 in higher interest earnings could have been realized.

The following pie chart compares the County's short-term investments purchased between January 1984 and October 1986 with the State investment pool. The chart illustrates the number of investments purchased that were below pool rates (97%), as compared to investments purchased that were above pool rates (3%).

Graph 2.1



Recommendation

1. We recommend that the Treasurer's Office expand its strategy for short-term investments to include greater use of the State investment pool. If better investment opportunities are available, they too should be utilized.

Interest Earnings Are Available Immediately Through Direct Deposits Of State Payments

Each year, Utah County receives approximately 2.7 million dollars in revenue from the State of Utah. In part, these revenues are the County's share of sales and liquor taxes collected by the State. Additionally, they include payments for a wide range of services provided by the County in behalf of the State. Currently, the County receives these payments by check through the mail, often taking 6 to 7 days. Each day these funds are in the mail, Utah County is denied their full investment earning potential. Recognizing the need for all counties in Utah to have immediate use of their revenues, the State Treasurer's office has offered a cost-free alternative to checks since 1981.

According to the State Treasurer's Office, revenues can be deposited directly into the County's account with the State

investment pool. County revenues can then begin earning interest even before checks can be prepared and mailed. When funds are needed, the County Treasurer's Office can call the administrator of the State investment pool and request the funds be wired to the County's bank account at no cost to the County. Generally, funds can be transferred the same day. However, if the amount being requested is in excess of one million dollars, the State requests at least 24 hours prior notification. Utah County could have earned an additional $9,000 in interest by simply requesting this service for the 33 months reviewed.

At the request of the Utah County Treasurer's Office, Salt Lake, and Davis counties were both contacted to determine whether they currently utilize the State investment pool to receive State-collected revenues. According to the two offices, their counties do utilize this service, and both feel that it has enhanced the investment potential of these revenues. Furthermore, both counties utilize the State investment pool to invest idle funds that need to remain fairly liquid. Davis County invests fully one half of all idle funds with the State pool.

Recommendation

1. We recommend that the Utah County Treasurer's Office request that future payments from the State be directly deposited into the County's account with the State Treasurer's investment pool.

CHAPTER IV

BANKING SERVICES NEED TO BE MONITORED

As custodian of Utah County's cash management system, the Treasurer's Office must monitor the banking services it uses to ensure that the related costs are reasonable and justifiable. However, the Treasurer's Office lacks a systematic process for reviewing banking costs for the County's two major bank accounts.

To determine the need for a review process, we identified the costs associated with the general-fund and tax accounts used by the Treasurer's Office for the 33 months covered by our study. Based on the evidence collected, these costs need to be reviewed periodically to ensure the County is paying competitive prices for its banking services.

Without a systematic process for monitoring banking costs, the Treasurer's Office does not know what the actual banking costs are. Furthermore, with the excessive average daily balances discussed in the preceding chapter, the real banking costs for both the general-fund and tax accounts may be much higher than readily apparent.

The following two sections further discuss why banking services should be reviewed on a regular basis. The first section identifies some of the problems associated with the way banks charge for their services and how these charges can vary depending on the payment option selected by the County. Unless these payment options are periodically evaluated, the County may pay for banking services that are never used.

The second section illustrates how actual banking costs are obscured by the excessive average daily balances discussed in Chapter II. By maintaining actual balances much higher than the minimum balances required, the County cannot fully optimize the investment value of the public funds it administers. In keeping with industry practices, banks typically invest excess balances at rates higher than the minimal rates they pay their customers. By allowing excess balances to accumulate, the County has paid more for its banking services than readily apparent. Professional contractual agreements can help the County monitor banking costs and ensure that they are competitive and reasonable.

Banking Costs Need To Be Reviewed

Banks are primarily compensated for the services they provide in one of two ways: (1) with service fees; or (2) with compensating balances. By paying service fees, a customer compensates the bank for each item of service received. By providing a compensating balance, a customer maintains a set cash balance in the account which the bank invests to cover the service charges. The costs associated with each option can be significantly different and should be reviewed periodically.

According to current literature, banks and local governments generally prefer compensating balances over service fees. Banks like compensating balances because they are included in their financial statements and are used by analysts to determine bank growth. Public officials favor compensating balances because once the balance is established, the officials do not have to account for the specific banking costs through the budgeting process.

Utah County has been paying for banking services by maintaining compensating balances. The Treasurer's Office currently maintains compensating balances of $25,000 in the general-fund account and $75,000 in the tax account.

To determine whether these balances are reasonable and competitive, we asked each bank to identify what the County would have paid in service fees. We compared these amounts with the projected State investment pool earnings for each compensating balance and calculated the difference. Using this process, we found that bank charges for the general-fund account would have been $12,000 higher than the interest that could have been earned by investing the compensating balance with the State investment pool. On the other hand, service charges for the tax account would have been $13,000 lower than the amount the County could have earned by investing the compensating balance with the State investment pool.

Recently, cash management experts have cautioned public entities about the problems associated with compensating balances. Primarily, experts have pointed out that as the public demands more accountability from local government, appropriate costs should be identified for any service purchased and utilized. Secondarily, experts have found that compensating balances are usually maintained to cover a wide range of services which may not be needed or are seldom used. Finally, money managers have recognized the difficulty with tracking all costs associated with compensating balances since these costs are tied to changes in market interest rates; as rates fluctuate so do banking costs.

In order to analyze and evaluate banking costs, the County Treasurer's Office must identify them. To identify banking costs, most professional money managers recommend the use of a request for proposal (RFP). RFPs are detailed requests for bids that outline and describe the proposed banking services desired. These proposals are prepared by the County and sent to those banks interested in submitting a bid. After the banks return the bid proposals, the County can select the banking services that will best optimize the use of its cash assets. This process of bank review should be performed on a periodic basis in order to keep banking services competitive.

Recommendation

1. We recommend that the Treasurer's Office request RFPs from qualified local banks for both its bank accounts. RFPs should help the Treasurer's Office review banking costs to ensure they are competitive and justifiable.

Actual Banking Costs Are Obscured By Excessive Average Daily Balances

Although charges may have been higher for the tax account and lower for the general-fund account, actual banking costs associated with both accounts may be much higher than readily apparent. As discussed in Chapter II, the County has maintained excessive average daily balances in both accounts. While both banks currently pay interest on funds in excess of compensating balances, the rates paid have been lower than the rates that were available through the State investment pool. Because these high balances have been maintained, public funds that could be earning additional revenue for the County have been left for the banks to invest for their own purposes.

The relationship between banks and the County should be mutually beneficial. Banks should neither expect the County to pay inflated prices, nor pay for services not received. Similarly, the County should pay competitive prices for the desired banking services. However, the County has maintained a combined average daily balance of 2.75 million dollars in the general-fund and tax accounts. During the 33 months reviewed, these balances could have earned an additional $174,000, had they been invested with the State investment pool.

To ensure that the County's banking relationships are competitive, the Treasurer's Office should develop bid proposals for needed banking services and submit these proposals to local

banks. Once the County has selected an acceptable bid, the professional relationship should be formalized with a written contract. According to the experts, a contract strengthens the local government's ability to monitor banking costs by defining the services and identifying the costs. Furthermore, open bidding and formal contracts provide excellent public disclosure, and justify the selection of a bank to all interested parties.

Recommendation

1. We recommend that the Treasurer's Office periodically request bids for banking services to ensure the County's banking costs are competitive. Once acceptable bids have been identified, written contracts should then be developed to formalize the agreements.

As a courtesy to the auditee, it is the policy of the Utah County Internal Audit Division to include, without edit, a response from the auditee on the issues raised in the audit report. The auditee's response is reproduced without edit on the following pages.

In accordance with the Utah County Internal Auditing Division's policy to invite and include an unedited response from each auditee, the Utah County Treasurer's Office was invited to respond to the issues raised in the present report. However, the Treasurer's Office did not wish to respond in writing.