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SALT LAKE COUNTY AUDITOR'S OFFICE

CRAIG B. SORENSEN, AUDITOR

September 10, 2003

James Cooper, Director
Salt Lake County Library System
Whitmore Library
2197 Fort Union Blvd
Salt Lake City, UT 84121-3188

RE: Sandy Library Cash Audit

Dear Jim:

We recently completed an unannounced count of the change fund at the Sandy Library. We also reviewed the branch's cash receipting and depositing procedures, and fixed and controlled assets. Overall, many sound internal control procedures are in place and functioning properly. The Sandy Library staff and Library management are to be commended for their efforts in this regard. Nonetheless, we did find some areas where improvements are needed.

All of our findings and recommendations were discussed verbally with the Sandy Library Circulation Supervisor and Branch Manager, as well as the Library Fiscal Manager. The findings and recommendations considered most significant are presented in this letter.

CHANGE FUND AND CASH RECEIPTING/DEPOSITING

At the time of our unannounced count, the branch's change fund balance, when counted with that day's collections, was \$1.25 short of its authorized amount. This relatively minor shortage occurred entirely in the count of the cash in the branch's four copy machines. Funds in the four cash registers balanced to their assigned change amounts and that day's collection records without exception.

Our audit also included examining cash receipting and depositing procedures on 36 randomly selected days to determine whether Countywide Policy #1062, "Management of Public Funds," was followed. The most significant findings identified during this review of cash receipting and depositing procedures were:

- **A Library employee, while the Assistant Circulation Supervisor at Sandy, had been adjusting the overages and shortages to make it appear as if there were none.**
- **Individual accountability for overages and shortages in cash drawers was not established.**
- **There was an inadequate separation of duties between cash receipting, the transfer of receipted funds to the safe, and the preparation of the deposit.**
- **Fine and Fee Waivers did not consistently receive adequate review and approval.**
- **Refunds were given out of funds that were receipted the same day.**

A Library employee, while the Assistant Circulation Supervisor at Sandy, had been adjusting the overages and shortages to make it appear as if there were none. During our review, we noted that only two of the first 15 days in our sample had any overages or shortages recorded in any cash drawer, while 20 of the remaining 21 days had at least one overage or shortage. The first 15 sample days were taken from the April-July 2002 time period and the last 21 days were taken from the August 2002-March 2003 time frame. We questioned library staff about this situation and learned that an employee who, at the time, was the Assistant Circulation Supervisor at Sandy had been adjusting the daily overages and shortages. She was apparently doing this by not depositing overages when they occurred and using those un-deposited monies to establish a “slush fund,” from which she deposited money to make up for shortages when they occurred.

According to library staff, this employee took this action as a result of her interest in maintaining “perfect” records. However, handling overages and shortages in this way is contrary to Countywide Policy #1062 which, in Section 5.2, states that, “*Any overages will be deposited into the agency’s depository account and reported on ... MPF Form 10, Cash Over/Short Log. Shortages will be withheld from the deposit to maintain the change fund at the authorized level and will be reported on...MPF Form 10*”. Handling overages and shortages in a manner not in accordance with the policy, as was being done by the Assistant Circulation Supervisor, creates a situation wherein funds could be diverted from the created “slush fund” without detection. It also causes the collected overage funds to not be deposited in a timely manner.

Library staff and management identified this inappropriate practice through their reviews of the overages and shortages at Sandy. During the spring of 2002, the Circulation Supervisor at the branch made some unsuccessful attempts at correcting the situation by instructing the assistant to prepare deposits in accordance with policy. Eventually, the assistant was verbally disciplined by the Branch

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Manager. After receiving this discipline, the assistant began handling the overages and shortages, and preparing deposits, correctly. This employee is now the Circulation Supervisor at the Draper Library.

ACTION TAKEN:

The Assistant Circulation Supervisor was verbally disciplined by the Branch Manager and the inappropriate handling of overages and shortages was corrected.

Individual accountability for overages and shortages in cash drawers was not established. Sections 2.5.3 and 5.2 of Countywide Policy #1062 both require that overages and shortages be recorded on a Cash Over/Short Log. The form prescribed for this use in the policy is designed to be an individual form, as it has a line for the employee's name at the top and a column for their initials next to each day's over/short entry. By having this form completed on an individual basis, management can monitor each cashier's pattern of overages and shortages, and thereby review for both potential theft and other performance issues.

However, during our review at the Sandy Library we noted that only cumulative overages and shortages for each day are recorded and monitored. On the 36 days in our random sample these cumulative outages ranged from an overage of \$4.26 to a shortage of \$9.99. Current practices at the branch make it impossible to determine individual responsibility for these outages, as cashiers on each register change every hour, based on a pre-determined schedule, and only the Z-tape run at the end of the day is used to complete balancing procedures.

Another procedure currently in effect at the Sandy Library is the periodic counting out, and placement in the safe, of cash receipts throughout the day. This is accomplished every two to three hours, also based on a pre-determined schedule. When these cash-count-outs occur, an intermediate Z-tape is also run, although that tape is not currently used in the balancing procedures. The Sandy branch could significantly improve their ability to establish individual cash drawer accountability by scheduling their cashier shifts for two to three hours in duration and having those shifts end at the same time as receipts are counted out of the registers.

RECOMMENDATIONS:

- 1. We recommend that cashiers' shifts be adjusted to two to three hours in duration and that employees assigned to the cashiering function rotate to new duties at the same time as cash register collections are counted out and placed in the safe.*

2. *We recommend that intermediate Z-tapes that are run when receipts are counted out and placed in the safe be used to calculate an overage/shortage for each cashier shift.*
3. *We recommend that each cashier's overage/shortage be listed on a separate Over/Short form initialed by the cashier and reviewed and signed by a supervisor each month.*

There was an inadequate separation of duties between cash receipting, the transfer of receipted funds to the safe, and the preparation of the deposit. The deposit preparing supervisor and the persons assigned to count out and transfer receipted funds to the safe at intermediate points throughout the day usually also cover one or more of the day's cashiering shifts. As a result, they receive some of the funds that they also count out and/or include in the deposit.

While an employee at Library administration does review the deposit paperwork, etc., this is done after funds have already been placed in a sealed deposit bag. This situation allows some employees to exclusively control transactions from the receipt of funds to the sealing of those funds in a deposit bag, which creates an opportunity for funds to be diverted to personal use.

Separating these duties to the maximum extent possible is in harmony with the intent of Countywide Policy #1062. The policy's introduction states that, *"Through the Management of Public Funds program, functions and responsibilities will be defined to establish internal control. Internal control is a system designed to prevent a single employee from exclusively controlling a monetary transaction...The duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities, and falsification of accounts."*

RECOMMENDATION:

We recommend that, to the maximum extent allowed with available personnel, deposit preparers and employees counting out collections not be scheduled to cashier funds that they will be handling while preparing the deposit and/or counting out collections.

Fine and Fee Waivers did not consistently receive adequate review and approval. County Libraries collect fines and fees incurred by patrons for overdue, lost, and damaged items. In some instances, fines and fees are waived by Library personnel. When this occurs, Library policy requires that an approval form be completed. The policy also requires that the employee handling the waiver update the patron's record on Dynix, the Libraries' on-line circulation and cataloging system.

We examined the 519 Fine and Fee waiver forms that were completed on the 36 randomly selected days in our sample. We found that 45 (8.7%) of these forms had no initials or signature on the "Approved by" line, which is supposed to be completed by a supervisor after he or she has reviewed the transaction, and 53 (10.2%) of the forms had no entry on the "Customer" line. That line should be either signed by the patron whose fee is being waived or, as we recommended in our 1998 audit of the Library system, contain an entry indicating how the transaction occurred if the customer was not present to sign the waiver form. On at least six (1.2%) of these forms, both the "Approved by" line and the "Customer" line were not completed.

The supervisor approval and customer signature are two key internal controls for the waiver process. Without these controls, there is opportunity for an employee to actually accept payment for a fee or fine, but then waive the fee or fine in the Dynix system and divert the funds to personal use. As a further control, Library management could perform a reconciliation between amounts waived according to the waiver forms and amounts waived according to the Dynix system. This could be done on random days each month, similar to the reconciliation of fines collected per the cash registers to fines collected per Dynix that is already done.

RECOMMENDATIONS:

- 1. We recommend that the Circulation Supervisor reemphasize the importance of obtaining a supervisor's approval and ensuring that there is an entry on the Customer line for all Fine and Fee Waiver forms completed at the Sandy Library.*
- 2. We recommend that Library management perform a Fine and Fee Waiver reconciliation on some random days each month, as described above, and follow-up as necessary on any problems identified by the reconciliation.*

Refunds were given out of funds that were receipted the same day. During our review at the Sandy Library, we noted that refunds were given out of the current day's collections on five of the 36 days in our random sample. We discussed this situation with Library personnel and they informed us that it is Library policy to issue cash refunds of less than five dollars out of the current day's receipted funds. This policy runs counter to Countywide Policy #1062, Section 4.1.1, which states that, "*Cash disbursements such as refunds...etc. will not be made from agency revenue receipts*". In order to continue the practice of issuing these small dollar refunds in this manner, the Library should request a formal exception to the Management of Public Funds policy.

RECOMMENDATION:

We recommend that the Library request an exception to Countywide Policy #1062 allowing them to issue cash refunds of less than \$5 out of the current day's received funds. This request should be submitted to the County Steering Committee for consideration.

FIXED AND CONTROLLED ASSETS

A fixed asset is an item of real or personal property owned by the County which meets the criteria for capitalization and has an estimated life expectancy of more than one year. A controlled asset is a personal property item, which is sensitive to conversion to personal use, generally having a cost of \$100 or greater (some specified items are considered controlled assets regardless of their cost), but less than the current capitalization rate. These items are not tracked centrally by the Auditor's Office as fixed assets are, but are the responsibility of the organization possessing them. The recent increase in the capitalization rate from \$3,000 to \$5,000 further increases the importance of County organizations properly accounting for their controlled assets.

During our audit, we performed a 100% inventory of the fixed asset equipment listed on Auditor's Office records as being at the Sandy Library. We also did a 100% inventory of the branch's non-computer related controlled assets, as listed on a controlled asset inventory log provided to us by the Branch Manager. In addition, we inventoried a random sample of computer-related controlled assets assigned to Sandy, according to Library records that were provided to us by the Library Tech Support staff. Finally, we reviewed other fixed and controlled asset practices for compliance with provisions in Countywide Policy #1125, "Safeguarding Property/Assets."

Our most significant findings related to fixed and controlled assets at the Sandy Library were:

- **Controlled asset inventory lists do not contain an accountability statement that assigns responsibility for the listed assets.**
- **The record of location for several assets was not accurate.**

Controlled asset inventory lists do not contain an accountability statement that assigns responsibility for the listed assets. Countywide Policy #1125 requires the use of either two different Controlled Asset Inventory Forms, one for employees and one for the organization, or, "*forms that contain substantially the same information*". A key aspect of the prescribed forms is the certification which, as section 4.3.3 of the policy describes, "*states that the employee (for assets assigned to*

employees), and the Property Manager (for assets not assigned to individual employees) are accountable for all property assigned to them.” These forms require that the employee or Property Manager sign to acknowledge their acceptance of accountability.

An accountant at Library Administration maintains a list of the non-computer related controlled assets on a spreadsheet. A technician in the Library Tech Support section maintains a list of the computer-related controlled assets on a database. Printouts of these lists essentially become the branch’s controlled asset forms. However, these forms do not list a person that is responsible for each asset, nor do they contain a certification statement with signature line. Signing to indicate acceptance of responsibility for assets increases the importance to the signer of properly accounting for those assets.

RECOMMENDATIONS:

- 1. We recommend that the Library either begin using the prescribed Controlled Asset Inventory Forms or add a certification statement with signature line to their spreadsheets/database in a manner that will allow the statement to appear on each location printout.*
- 2. We recommend that individual employees be listed on the controlled asset forms and sign the certification statement as the responsible person for assets in their control.*
- 3. We recommend that the Branch Manager be listed on the controlled asset forms and sign the certification statement as the responsible person for assets at their branch that are not assigned to individual employees.*

The record of location for several assets was not accurate. The Auditor’s Office listing of the fixed assets in each organization includes a four digit number, called a location code, that represents the unique geographical site at which each asset is supposed to be located. For example, there were four fixed assets with a location code of 1531 listed on Auditor’s Office records, indicating that those assets were supposed to be located at the Sandy Library. While we did locate those assets during our review, none of them were actually at the Sandy Library. Instead, we found one of them at the Whitmore Library and three of them at a Library storage facility that currently does not have a location code assigned to it.

Section 3.2 of Countywide Policy #1125 states that *“Property Managers’ duties relating to fixed assets consists of those described in not only 2.2 of this policy, but also the Auditor’s Accounting Policies and Procedures on the Management of Fixed Assets.”* The Auditor’s Accounting Policy and Procedure #5.4, which is titled *“Fixed Asset Location Code Maintenance,”*

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states that, *“The location code...should be updated on a timely basis by (or under the direction of) the Property Manager whenever the asset is relocated to a different County facility site.”* The policy goes on to describe procedures whereby Property Managers can enter location code changes themselves, directly into the Auditor’s Fixed Asset system. The timely updating of location codes is an important step since a lack of control in this area creates an environment wherein items are difficult to find and, consequently, could more easily be converted to personal use.

RECOMMENDATIONS:

- 1. We recommend that the Library Property Manager contact the Auditor’s Office fixed asset supervisor and request the establishment of a location code for the Library storage facility described above.***

- 2. We recommend that, after the new location code is established, the Property Manager follow the instructions in the Auditor’s Accounting Policies and Procedures #5.4 to update the location codes of the four items described above, and any other Library assets that need to have their location codes updated.***

In closing, I would like to express appreciation to the Sandy Library and Library administration staff for the cooperation and timely assistance they gave to our auditors. I trust that our work will be of benefit to you as you endeavor to make changes that will strengthen internal controls at the Sandy branch and the other libraries. If we can be of further assistance to you in this regard, please give me a call.

Sincerely,

James B. Wightman, CPA
Director of Internal Audit

cc: Mike Stoker
Kent Dean