



## **SALT LAKE COUNTY AUDITOR'S OFFICE**

**SEAN THOMAS**

May 9, 2005

Mr. James Cooper, Director  
Salt Lake County Library  
2197 E. Fort Union Blvd.  
Salt Lake City, UT 84121

### **RE: East Millcreek Library Cash Audit**

Dear Jim,

We have recently completed a limited scope audit of the East Millcreek Library. Our audit included a count of the change fund, a review of the depositing activity from February 2004 through January 2005, cash handling procedures and fixed and controlled assets.

To accomplish our fieldwork, we tested a statistically significant random sample of deposits. Findings relating to non-compliance with Countywide Policy may be present in areas not examined. However, a statistically significant random sample is designed to provide a degree of assurance that the complete nature of transactions and processes is examined. We did find many positive features in the system of internal control at the East Millcreek Library. Specifically we found:

- Staff members were professional in fulfilling their duties and were aware of the need for strong internal controls over cash handling and depositing.
- Deposits were timely in accordance with Countywide Policy # 1062, "Management of Public Funds."

### **CASH COLLECTING, RECEIPTING AND DEPOSITING**

East Millcreek Library (EMC) collects money primarily for fines paid for overdue books or materials and replacement costs of lost or damaged books and materials. It also collects for sales of used library materials, supplies related to computer use, LYNX cards, equipment rentals, and to replace lost library cards. In addition, funds are collected for room use deposits and out-of-County library cards. The daily activity on the days tested in our audit ranged from \$113 to \$564. Most funds collected at the cash register are in the form of cash and check, although EMC has recently begun to accept credit cards. Funds collected in the copier are also included in the deposit. The copier is opened each

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day, the activity is noted on a worksheet for that purpose, and the appropriate amount of cash is removed from the machine.

At the end of the day, the designated librarian runs a cash register "Day End Z-Tape" which provides a summary and detail version of the day's activity. The credit card summary and batch reports are also run. The librarian then counts the total cash, checks and credit card receipts in the cash drawer. The funds, together with the cash register tapes and credit card reports are placed in the safe overnight.

The following morning, or Monday morning for Friday and Saturday activity, the staff member responsible for preparing the deposit removes the cash and checks from the safe. The copier activity is noted, and funds are removed from the machine. A "Daily Cash Balancing" report, a form substantially the same as Form MPF 3, is completed and the deposit is prepared. The start-up change fund is placed in the cash register. The deposit is placed in a Mylar bag and held for pick-up by the daily library courier who takes the deposit to Library Administration at the Whitmore Library. An armored car service then retrieves the deposit for delivery to the bank.

The findings resulting from our review of cash handling procedures and testing of deposits were as follows:

- **Refunds were being paid from daily over-the-counter receipts.**
- **Patron's credit card information was at risk.**
- **Supporting documentation was not attached to the MPF Form 3, "Daily Cash Balance."**

**Refunds were being paid from daily over-the-counter receipts.** During our audit we found that refunds up to \$5.00 were made directly from the cash register. When we questioned the authorization for this activity, EMC staff indicated that it was in the library system's cash handling procedures. The Library has a document titled "Salt Lake County Library System Cash Handling Procedures," which in Section 4.2, states, "*Refund Limits: Refunds may be made in any department up to \$5.00.*" Section 4.4, states, "*Refunds: All refunds are to be done out of whatever machines need the refund. Registers out of registers and copies out of copy machines...*"

This procedure is in direct contravention of Countywide Policy. Policy #1062, "Management of Public Funds," Section 3.12.1, states, "*No refunds are to be issued out of depository accounts. These accounts are strictly for depositing of revenue and are not Imprest Funds.*" To further clarify, Policy #1062, Section 4.1.1, states "*Cash disbursements such as refunds, payments, reimbursements, etc. will not be made from agency revenue receipts. Disbursements may be accomplished only in accordance with the authorized use of imprest funds, imprest checking accounts or the general warrant process.*" Because refunds were issued out of daily collections, the effect of this internal Library policy was to issue the refund out of the depository account.

In our letter report of an audit of South Jordan Library, dated October 10, 2003, we noted this finding and recommended the Library seek an exception to Policy #1062. When queried about the status on the recommendation in a follow-up questionnaire, where answers were included in the Internal Audit Division "Annual Report," Library management stated, "*This is already the practice of the County Library System.*"

When issuing refunds, the Library System's own procedures titled "Salt Lake County Library System Cash Handling Procedures," Section 4.3, require the use of a "Refund Form AC 5-383." This form calls for the signature of the patron and that the cash register receipt be stapled to the form and submitted with the day's cash. There is no space on the form for a supervisor's signature, nor is there any requirement in the Library policy for management review of refund activity. The monthly summary of depositing activity by library branch did not show refunds given, although it did show fee and fine waivers.

By allowing refunds to be issued from the cash drawer, the Library is failing to recognize all revenue collected on any given day. Further, it is not tracking refunds as a discreet amount by branch or system-wide. Moreover, the procedure for issuing refunds, without any management oversight, may be allowing inappropriate refunds to be given without being detected.

#### **RECOMMENDATIONS:**

- 1. 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 receipted funds. This request should be submitted to the County Steering Committee for consideration. (This is the same recommendation included in the October, 2003 Letter Report.)**
- 2. Should Library Management not wish to implement the recommendation above, we recommend that the practice of issuing refunds from cash collections cease and, in compliance with County policy, that an imprest fund be established at the Library for the purpose of issuing refunds.**
- 3. We recommend that the Library "Form AC 5-383, Refunds" be modified to include a line for the library manager or designee to sign as an indication of managerial review.**

**Patron's credit card information was at risk.** In February, 2005, the Library inaugurated the use of credit cards at each of its branches requiring an added step in day-end cashiering procedures of generating two credit card summary reports. These reports were then compared to the individual credit card transactions processed during the day by the Library.

The first report was a summary total of the individual payments received for the day by credit card type such as Visa. The second report the cashier produced was termed

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a batch report, which is a complete listing of the day's transactions to match against the individual credit card slips processed during the day. The batch report, which included the patron's complete individual credit card numbers, did not require a password to produce, but the summary report, which had no individual identification data, required a password. Copies of these reports, retained for verification of credit card numbers, are secured in a locked cabinet.

When we questioned the practice of requiring a password for one report but not for the other, we were referred to the Relationship Manager, Wells Fargo Merchant Services. She assisted the Library in the initial set up of the credit card receipting program. She informed us that she set up the program the way the client wanted it to operate, within certain guidelines. She agreed that having a password to generate the batch report would be a valid requirement and told us she would contact Library management and see about doing an "initialization," where she can go into the system and make a change to require a password to pull up the batch report. This change will be effective at all Library branches.

### **RECOMMENDATION:**

*We recommend that passwords be required to produce the day's batch report to strengthen controls over private credit card account information.*

**Supporting documentation was not attached to the MPF Form 3, "Daily Cash Balance."** As the cashier prepared the daily deposit, a calculator paper tape of the totals was created, but not attached to the daily cash balance sheet.

Countywide Policy #1062 "Management of Public Funds," Section 3.5.4, states, "*Deposits should be tallied on calculators using duplicate...adding machine tape. One copy will be attached to the deposit and the other retained for agency records.*"

Failure to attach the calculator paper tape to the deposit makes verification of the amounts on the daily cash balance sheet more difficult. Repetition of tasks already completed and duplication of effort is caused by the absence of such documentation.

### **ACTION TAKEN:**

*The person who prepares the deposit will hereafter attach a copy of the calculator tape to the daily cash balance sheet.*

### **FIXED AND CONTROLLED ASSETS**

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County fixed and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." A fixed asset is an item of real or personal property owned by the County, having an estimated useful life of more than one

year and a cost equal to or greater than the capitalization rate, currently \$5,000. A controlled asset is a property item which is easily converted to personal use and having a cost of \$100 or greater, but less than the current capitalization rate.

We conducted an inventory of all EMC fixed and controlled assets. The fixed asset report, AFIN0801, prepared and maintained by the Auditor's Office, showed one fixed asset assigned to EMC, a circulation desk, which we located. For controlled assets, the Library system maintains two lists, one for computer equipment and peripherals, and the other one for non-computer equipment. EMC's Manager gave us both lists, the computer list titled, "Computer Hardware Inventory Report – East Millcreek," and dated November 23, 2004, and the non-computer list, dated 2003. The month and day were not specified on this other list. Using these lists we conducted our inventory of controlled assets. During our audit we found the following:

- **A current list of controlled assets was not on file.**
- **The controlled asset list did not include three items that met the criteria for controlled asset classification.**

**A current list of controlled assets was not on file.** EMC had a controlled asset list on file for non-computer items, current as of 2003, but not the most recent, 2004 list. The Library system assigns responsibility for fixed and controlled assets to both a central Property Manager, who works out of Library administration offices at the Whitmore Library, and to individual Library branch Managers. The central Property Manager compiles the listing of non-computer controlled assets based on input from branch Managers and staff.

Oversight of computer hardware and peripherals, such as monitors printers and processors, is assigned to Library system Information Services (I/S) personnel. I/S personnel compile and maintain computer equipment listings, and conduct inventories of this equipment at individual branches.

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.3, indicates that Property Managers are responsible for the following: "*Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody.*" Controlled asset lists should be updated to reflect additions or deletions, and annotated as the annual inventory is completed.

Absence of the current controlled asset list at EMC essentially removes responsibility for controlled assets from the level where oversight would be most effective. The 2004 list was not on-site due to miscommunication between EMC and Library administration. However, EMC should retain its own copy of the list to facilitate oversight of controlled assets and provide an accurate basis for conducting annual inventories.

**RECOMMENDATION:**

*We recommend that a current list of controlled assets be maintained at East Millcreek Library.*

**The controlled asset list did not include three items that met the criteria for controlled asset classification.** As we completed the controlled assets inventory, we also noted items which should have been designated as controlled assets. We found three such items, a computer monitor, located in EMC offices, a Cannon CFX-L4000 fax machine, and a Sharp AR-163 Digital Imager, located at the information desk. None of these three controlled assets were on either of the two lists provided to us, although the Library's controlled assets tags had been placed on the monitor and fax machine.

As another duty assigned to Property Managers, Policy #1125, Section 2.2.8, states, *“Coordinate with the organization’s Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established...”* Controlled assets should be tagged when they are delivered to EMC. Newly acquired controlled assets had not been placed on either of the two controlled asset lists because Library personnel were preoccupied with other responsibilities. However, controlled assets that are not listed may also not be monitored, making them more susceptible to theft. The three controlled assets noted above should be placed on the controlled asset list. This duty may fall to Library I/S personnel where computer equipment is concerned.

**RECOMMENDATION:**

*We recommend that controlled assets be added to the controlled assets list, or the Computer Hardware Inventory Report, as they are acquired.*

In closing, we express our appreciation to the staff at East Millcreek Library and Library Administration for the cooperation and assistance they gave our auditors. We are confident that our work will be of benefit to you and help your organization strengthen internal controls. If we can be of further assistance to you in this regard, please contact us.

Sincerely,

James B. Wightman, CPA  
Director, Internal Audit Division

cc: Jean Nielsen  
Mike Stoker  
Suzanne Tronier