

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
Whitmore Library

December 26, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 26, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Whitmore Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Whitmore Library in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Whitmore Library and the cooperation from Mary Rice, Circulation Supervisor, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Whitmore Library during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By James Fire MBA/Acc
Deputy Auditor

cc: Jim Cooper, Director
April Townsend, Associate Director for Finance and Operation
Javaid Lal, Fiscal and Administrative Director
Kent Dean, Whitmore Library Manager
Mary Rice, Whitmore Circulation Supervisor

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Whitmore Library. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

Whitmore Library has implemented several key controls for the management of public funds. Risks examined were not anticipated to result in material loss. However, deficiencies discovered dealing with depositing, merchandise inventory, controls over payments received by mail, segregation of duties, balancing the change fund, and tracking fund transfers have a higher likelihood of leading to loss of County property.

Findings and Recommendations

Finding # 1 - Deposits were not always made in a timely manner.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by § 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable, but not later than three days after receipt."

We found that 16 out of 26 deposits examined were deposited more than three days after receipt of collections.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that would otherwise be accrued.

Recommendation

We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

Finding # 2 - Merchandise inventories were not tracked.

Risk Level: Low

United States General Accounting Office, Executive Guide, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 5, states:

"Managing the acquisition, production, storage, and distribution of inventory is critical to controlling cost, operational efficiency, and mission readiness. Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity's financial management records and reports...The ability to accurately count physical inventories is critical in verifying that inventory actually exists and that on-hand balances agree with financial and logistical records."

Whitmore Library was not tracking their merchandise inventory. We found no record of inventory tracking and reconciling of items such as book bags, ear bud headphones, flash memory drives and replacement library cards.

When inventory is not tracked and reconciled, revenue and inventory on hand is at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Whitmore Library track and reconcile their merchandise on hand.

Finding # 3 - Payments received in the mail did not have adequate protective controls.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.1.5 states:

"Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

Checks received in the mail were opened by one employee who initialed and passed them to a cashier for receipting. It was not possible to verify the amounts received, dates of receipt, or chain of custody.

When checks are received by one employee without controls to record payment information and transfer to a cashier, it increases the risk of funds being lost or diverted to personal use.

Recommendation

We recommend that compensating controls be implemented to protect and account for payments received in the mail.

Finding # 4 - An annual SAQ representing Library Services' compliance with PCI had not been completed and was not on file.

Risk Level: Low

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy" Section 3.0, states under the Policy Statement:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

An annual SAQ representing Library Services' compliance with PCI has not been completed and is not on file.

An agency that is not compliant with PCI-DSS is at an increased risk of cardholder data breaches, fines, and loss of the ability to accept credit cards as payments.

Recommendation

We recommend that Library Services complete and sign an annual SAQ and that Whitmore Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Finding # 5 - The same person signed balance sheets as cashier and reviewer.

Risk Level: Low

Countywide Policy #1062 "Management of Public Funds," Purpose states:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining records related to those public funds. Segregating these functions protects the employee involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment."

Three cashier balance sheets dated August 27, 2013 listed the same individual as both cashier and reviewer for all three cash registers.

When duties for cashiering and reviewing are not segregated, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that cashier balance sheets be reviewed and signed by an independent party.

Finding # 6 - The amount of the change fund on hand did not match the amount of record.

Risk Level: Low

Countywide Policy #1203, "Petty Cash and Imprest Funds," Sections 5.2.1 and 5.2.2.1 states:

"Upon discovery of any shortages, an investigation shall be conducted by the Custodian and his/her supervisor. Under circumstances of gross negligence or intentional wrong doing the Custodian may be required to personally replenish the shortage." "Any unresolved shortages greater than \$10.00 shall be explained in writing to the Mayor, along with a request to approve reimbursement of the shortage. If approved, the Auditor will reimburse the amount requested to replenish the account."

The amount of the change fund on hand totaled \$364.50, a shortage of \$31.95 from the \$396.45 balance of record in Mayor's Financial Administration.

When the change fund does not balance to the amount on record, it could indicate a lapse of management control of the fund.

Recommendation

We recommend that the custodian and their supervisor conduct an investigation for the discrepancy and submit a letter to the Mayor requesting a reimbursement for the shortage.

Finding # 7 - A fund transfer log was not used.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 2.7.3 states:

"Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox."

A fund transfer log was not used to document the retrieval of funds from or their return to the safe.

When movement of the change fund is not documented, accountability for funds is not established, leaving them at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that an MPF Form 7, "Fund Transfer Ledger," or similar log, be used to document the movement of the change fund to and from its secured location.

Additional Information

Background

Whitmore Library is among the largest and busiest of nineteen County libraries. It houses an extensive collection of books, magazines, movies, music CD's and audiobooks. Twenty-four computer stations with Microsoft Word and Excel software installed, and free wireless Internet access are offered to the public. Fourteen individual study carrels are equipped with outlets that are ideal for using a laptop or netbook. Printing from the Deseret News, Salt Lake Tribune, and New York Times microfilm collection is offered free of charge.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending September 20, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, will be attached as Appendix A.



HUMAN SERVICES
DEPARTMENT
"Making a positive
difference"

December 23, 2013

Gregory P. Hawkins
Salt Lake County Auditor
2001 S. State Street- N3300
Salt Lake City, UT 84190

RE: Management Response to the Audit of the Key Controls of Salt
Lake County Whitmore Library

Dear Mr. Hawkins:

This letter is in response to the audit report of Salt Lake County Whitmore
Library. We'd like to thank James Fire for planning and completing the
audit in accordance with Utah Code Ann. §17-19a-204.

As reflected in our responses, we are committed to strengthening our
internal financial controls and reasonably implement audit
recommendations.

If you have any questions or need any additional information, please feel
free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Cooper', with a long horizontal stroke extending to the right.

James D. Cooper
Director

JAMES D. COOPER
LIBRARY DIRECTOR
jimcooper@slcolibrary.org

**LIBRARY
ADMINISTRATION**

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Salt Lake County Whitmore Library Management Response to the Audit Findings

Salt Lake County Library management is ultimately responsible for implementing internal controls to protect assets, information and to ensure policy objectives are achieved. Whitmore Library conforms to the County policies and procedures as directed by the Library Management. All policies and procedures are implemented system-wide with few exceptions.

Finding # 1 - Deposits were not always made in a timely manner.

Risk Level: [Moderate](#)

We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

Management Response:

The Library makes every effort to deposit funds within the time allowed by the Utah Code. However, transportation of deposits to a central location adds an additional day to the depositing process. It is especially true for funds collected on Friday. The delivery of fees and fines collected on Friday does not make it to the bank until Tuesday and exceeds the time allowed. The alternate option as branch courier pick is not cost-effective. However, the Library Management will explore other feasible options for funds transfer logistics and timely deposits.

Finding # 2 - Merchandise inventory was not tracked.

Risk Level: [Moderate](#)

Recommendation

We recommend that Whitmore Library track and reconcile their merchandise on hand.

Management Response:

The Library plans to use Smart Money Manager (SMM), library's Point of Sale software to track merchandise inventory. The POS vendor has indicated that SMM can manage and automatically track on going inventory in the POS software. The Library plans to test and adopt First in, First-out (FIFO) inventory method in next few weeks.

Finding # 3 - Payments received in the mail did not have adequate protective controls

Risk Level: [Low](#)

Recommendation

We recommend that compensating controls be implemented to protect and account for payments received in the mail.

Management Response:

Action Taken - *The Library staff is now required to keep a log of checks received in the mail and also retain a copy of the deposit receipt as a proof of deposit and credit to patron's account.*

Finding # 4 - An annual SAQ representing Library Services' compliance with PCI had not been completed and was not on file.

Risk Level: **Low**

Recommendation:

We recommend that Library Services complete and sign an annual SAQ and that Whitmore Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Management Response:

Salt Lake County Library is currently working towards a system-wide PCI compliance. The Library is at 85% completion on SAQ-C certificate based on scanning data from a third party PCI scanning service. A plan is in place to complete Level-C compliance in 2014.

Finding # 5 - The same person signed balance sheets as cashier and reviewer.

Risk Level: **Low**

Recommendation:

We recommend that cashier balance sheets be reviewed and signed by an independent party.

Management Response:

The Whitmore Library has the following compensating controls in place: Library Fiscal Coordinator performs an off-site (Admin) review of daily cash deposits. The Coordinator receives copy of the balance sheet (daily cash collection form) and bank deposit slip along with deposits in a tamper-proof bag. A master deposit is prepared after the review and an electronic confirmation is sent to Whitmore Library. Finally, the Library Accountant reconciles daily cash collection sheet with the sales ledger. We believe that sufficient controls are in place to mitigate any risk to public funds.

Finding # 6 - The amount of the change fund on hand did not match the amount of record.

Risk Level: **Low**

Recommendation:

We recommend that the custodian and their supervisor conduct an investigation for the discrepancy and submit a letter to the Mayor requesting a reimbursement for the shortage.

Management Response:

During the construction of Millcreek Community Center Library (MCC), the MCC copier was transferred to Whitmore Library. The Whitmore change fund was increased to reflect the addition of MCC copier change fund. After the construction, the copier was moved back to MCC along with its change fund. However, the Whitmore change fund was not decreased to account for this change. The Library will request the Mayor's Finance to adjust Whitmore change fund balance.

Finding # 7 - A fund transfer log was not used.

Risk Level: **Low**

Recommendation

We recommend that an MPF Form 7, "Fund Transfer Ledger," or similar log, be used to document the movement of the change fund to and from its secured location.

Management Response:

Action Taken: *The Library staff is now maintaining a log to document the movement of the change fund to and from the safe.*
