

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of the Key Controls of
Bingham Creek Library

January 14, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

Audit reports are available at
<http://www.saltlakecountyauditor.org/site/audit/>



January 14, 2014

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 Bingham Creek Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Bingham Creek 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 Bingham Creek Library and the cooperation from Kevin Oberhansly, Julie Ragsdale, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Bingham Creek 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 Todd Livingston
Deputy Auditor

cc: Jim Cooper, Library Services Director
Javaid Lal, Administrative and Fiscal Manager
Kevin Oberhansly, Acting Manager

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LL.M.
Chief Deputy Auditor

2001 South State Street, N3300
PO Box 144575
Salt Lake City, UT 84114-4575

(385) 468-7200
(385) 468-7201 / fax
GHawkins@slco.org



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Bingham Creek 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

The Bingham Creek Library has put into place several key controls for managing public funds. Most risks identified were minor and were not expected to result in material loss. Deficiencies in certain internal controls over cash handling, depositing, credit cards, and safeguarding personally identifiable information have a higher likelihood of leading to a loss of County property.

Findings and Recommendations

Finding # 1 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," states in the introduction that:

"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 accounting records related to those public funds. Segregating these functions protects the employees 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."

During a review of 30 deposits between November 2012 and October 2013, 4 deposits were prepared by a cashier.

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

Recommendation

We recommend that the deposit be prepared by an employee that does not perform cashiering duties.

Finding # 2 - Individual accountability was not established for funds entrusted to each cashier.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 2.3.1 states:

"The County Agency's Fiscal Manager will ensure that individual accountability and effective security is established and maintained for funds entrusted to each Cashier.

Multiple cashiers used the same cash drawer throughout the day without establishing individual accountability by properly closing out the cash drawer and verifying the accuracy of the funds entrusted to them.

When individual accountability is not established for funds entrusted to each cashier, overages and shortages cannot be assigned to a specific cashier. Also, cashiers may feel less responsible than they would if they were individually accountable for funds entrusted to them. Additionally, access by multiple cashiers to the same cash drawer increases the risk of funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend that individual accountability be established for funds entrusted to each cashier.

Finding # 3 - Personally Identifiable Information was unsecure during the online library card sign-up process.

Risk Level: Moderate

Salt Lake County Code of Ordinances, Chapter 2.81, "Security of Personal Identifiers," Section 2.81.020 states:

"Each agency shall have in place...procedures for the secure collection, maintenance, transmission, transfer, or disposal of personal identifiers."

When the public signs up for a library card through the Internet, the information is transmitted as plain text, which is unencrypted (non-SSL) and not secure.

When personally identifiable information is not secure, there is an increased risk of information being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Bingham Creek Library secure personally identifiable information transmitted during the online library card sign-up process.

Finding # 4 - Merchandise inventory was 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."

The Bingham Creek Library was not tracking merchandise inventory. There was no record of inventory tracking and reconciling.

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 recommended that Bingham Creek Library track and reconcile their merchandise on hand.

Finding # 5 - Cash Balance Sheets were not reviewed and signed by an independent supervising party.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1 states in the introduction:

"All County Agencies should balance collections to cash register (or receipt log) totals and prepare a deposit using MPF Form 3A, Cash Balance Sheet, or a similar form developed for and produced by the specific Agency. (See Appendix 3 [MPF Form 3A] attached.)"

The supervisors at the Bingham Creek Library acted as cashiers and were involved in the cash handling process. Supervisory review of the Cash Balance Sheets were not supported with a proper segregation of duties.

When cash balance sheets are not reviewed by an independent party, the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping increases.

Recommendation

We recommend that MPF Form 3A, "Cash Balance Sheet," or similar form, be reviewed and signed by an employee not involved in the cash handling process.

Finding # 6 - Deposits were not always made in a timely manner.

Risk Level: Low

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 no later than three days after receipt."

We found that 16 out of 30 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 # 7 - Deposits did not always balance.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.2 states:

"A 'master' balance sheet may be prepared to accumulate totals of individual cash balance sheets from each cash register. With any balancing procedure, the cash count total, including the breakdown by cash and check composition, should match the deposit slip total."

Nine of the 30 bank deposits reviewed did not balance with the daily collections reported on the cash balance sheets.

When daily collection records and cash balance sheets do not reconcile with deposit documentation, cashier theft and/or errors cannot easily be discovered.

Recommendation

We recommend that the cash balance sheets recording the daily collections balance with the daily bank deposit.

Finding # 8 - Controls over checks received through the mail were not adequate.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.1.6 states:

"The duties of opening the mail and summarizing the daily receipts of checks should be separated from the duty of posting payments in the cash receipts journal unless Agency Management determines that doing so is operationally burdensome. If operationally burdensome, Agencies shall adopt compensating internal controls to insure that the posting of payments to accounts is consistently overseen and reviewed by Agency Management or Fiscal Manager."

We observed that checks received by mail were not recorded in a log, and the same employee who received payments through the mail also processed the transactions.

When checks received by mail are not properly safeguarded and documented, they are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the duties of posting and receiving payments be separated, the mail be opened in the presence of two persons, or that compensating controls be adopted.

Finding # 9 - An SAQ representing Library Services' compliance with PCI-DSS 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:

"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 SAQ representing Library Services' compliance with PCI-DSS had not been completed and was 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' management complete and sign an annual SAQ and that the Bingham Creek Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Finding # 10 - The "Controlled Assets Inventory Form - Employee" was not used.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets" Sections 4.3 and 4.31 state:

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information)...[the] 'Controlled Assets Inventory Form-Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual."

The "Controlled Assets Inventory Form-Employee" was not used to manage controlled assets that were assigned to employees.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Bingham Creek Library use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.

Finding # 11 - 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 the safe.

Additional Information

Background

The Bingham Creek Library is located at 4834 West 9000 South in West Jordan. The library has served Salt Lake County residents since opening July 11, 1998. The 19,000 square foot library offers a variety of programs including story time for children, family movie night, book discussion groups for all ages, and other amenities including books, DVDs, music CDs, and audio books. The building has two conference rooms for small groups and public meetings and 21 computers with internet access and word processing capabilities, as well as high speed wireless access. The Bingham Creek Library successfully accomplishes the mission of Salt Lake County Library services by making a positive difference in the lives of customers by responsively providing materials, information, and services at community libraries located throughout the Salt Lake Valley and/or via the Internet.

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 October 31, 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"

January 13, 2014

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 Bingham Creek Library

Dear Mr. Hawkins:

This letter is in response to the audit report of Salt Lake County Bingham
Creek Library. We'd like to thank Todd Livingston and Leonardo Flores
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 the 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

8030 SOUTH 1825 WEST
WEST JORDAN CITY
UTAH 84088
PHONE (801) 943-4636
FAX (801) 561-3506

slcolibrary.org

**Salt Lake County Bingham Creek 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. The Bingham Creek 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 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

Recommendation

We recommend that the deposit be prepared by an employee that does not perform cashiering duties.

Management Response:

The Bingham Creek Library Circulation Supervisor and Assistant Supervisors are primarily responsible for preparing deposits. Every effort is made to separate closing cashiers from the opening responsibilities or preparing deposits. However, due to limited staffing resources and scheduling conflicts, it is imperative that the supervisors assume cashiering responsibilities as well as prepare deposits. Library believes that sufficient compensating controls are in place to mitigate any risks to public funds.

Finding # 2 - Individual accountability was not established for funds entrusted to each cashier.

Risk Level: Moderate

Recommendation

We recommend that individual accountability be established for funds entrusted to each cashier.

Management Response

Due to low volume and low monetary value of transactions, the Bingham Creek Library staff and library fiscal department staff reviews all shortages and overages in the aggregate on daily basis. All outages or shortages over \$2 are reviewed and investigated to identify patterns. It would not be cost-effective for the library to assign a dedicated cashier to each cash register. Library staff is cross-trained in different areas of library operations to better utilize their time and to provide better customer service

Findings # 3 - Personally Identifiable Information was unsecure during the online library card sign up process.

Risk Level Moderate

Recommendation

We recommend that Library Services secure personally identifiable information transmitted during the online library card sign up process.

Management Response

Action Taken - The Library is the process of implementing secured online application.

Finding # 4 - Merchandise inventory was not tracked.

Risk Level: Moderate

Recommendation

We recommend that the Bingham Creek Library maintain detailed records of any merchandise inventory.

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 # 5 - Cash balance sheets were not reviewed and signed by an independent party.

Risk Level: Low

Recommendation

We recommend that MPF Form 3A, "Cash Balance Sheet," or similar forms be reviewed and signed by an employee not involved in the cash handling process.

Management Response:

The Bingham Creek 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 Bingham Creek 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 - Deposits were not always made in a timely manner.

Risk Level Low

Recommendation

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 # 7 - Deposits did not always balance.

Risk Level: Low

Recommendation

We recommend that the cash balance sheets recording the daily collections balance with the daily bank deposit.

Management Response

The Management requested additional information from the Auditor's Office. A follow-up meeting was setup to discuss this finding. It was agreed that daily collection report did not match with the cash balance sheet due to a technical error. The daily collection report failed to transmit revenue data from the point of sale (POS) software. The error was fixed subsequently.

Finding # 8 - Controls over checks received through the mail were not adequate.

Risk Level: Low

Recommendation

We recommend that the duty of opening the mail and summarizing the receipt of checks be separated from the cash receipting duty, or that compensating controls be adopted to oversee and review the process. We recommend that checks received in the mail be opened and recorded on a log in the presence of two staff members.

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

Risk Level: Low

Recommendation:

We recommend that Library Services management complete and sign an annual SAQ and that Bingham Creek Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS 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 # 10 - The "Controlled Assets Inventory Form - Employee" was not complete.

Risk Level: Low

Recommendation

We recommend that all assets readily assignable to each employee be included on the "Controlled Asset Inventory Form - Employee".

Management Response:

Action Taken: Library management has identified individually assigned assets and completed the "Controlled Assets Inventory Form-Employee."

Finding # 11 - A fund transfer log was not used.

Risk Level: Low

Recommendation

We recommend that an MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.

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.
