

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



An Audit of the Key Controls of
South Jordan Library

July 14, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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July 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 South Jordan Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of South Jordan 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 South Jordan Library and the cooperation from Matt McLain, Library Manager, Lisa Brimhall, Circulation Desk Supervisor, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to South Jordan 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 Leonardo Flores
Deputy Auditor

cc: Jim Cooper, Library Services Director
April Townsend, Associate Director Finance & Operations
Elizabeth Anguiano, Interim Administrative & Fiscal Manager
Matt McLain, Library Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of South Jordan 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 South Jordan Library has put into place several key controls for managing public funds. Most risks identified were minor and not expected to result in material loss. Deficiencies in internal controls for segregation of duties, cash receipting, PCI compliance, and merchandise inventory have a higher likelihood of being a liability to the County. A report of the last audit of South Jordan Library was released to the public in December 2013.

Findings and Recommendations

Finding # 1 - 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."

A previous audit conducted in 2013 found that multiple cashiers used the same cash drawer. A retest showed that multiple cashiers continue to use 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 particular 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 # 2 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

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

"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."

A previous audit conducted in 2013 found employees that performed cashiering duties also prepared the daily deposit. A retest showed that in like manner employees that performed cashiering duties also prepared the daily deposit.

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 who does not perform cashiering duties.

Finding # 3 - The cash drawer can be opened without an electronic record of the transaction.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 2.4.1 states:

"Each Agency shall acquire and maintain the systems and equipment necessary for the accurate receipting, recording, accounting, and safekeeping of public money."

The Library point-of-sale system allows cashiers to open the cash drawer without an electronic record of the transaction.

When a cash drawer can be opened without recording the transaction, accurate receipting, recording, accounting, or safekeeping of public money cannot be established.

Recommendation

We recommend that transactions conducted in the point-of-sale system result in an accurate receipting, recording, and accounting of public money.

Finding # 4 - 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."

A previous audit conducted in 2013 found that an SAQ showing compliance with PCI-DSS had not been completed. A retest showed that an SAQ representing Library Services' compliance with PCI-DSS had still not been completed and was not on file.

When an agency is not compliant with PCI-DSS, there is an increased risk of cardholder data breaches, fines, and the inability to accept credit cards as payments.

Recommendation

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

Finding # 5 - Merchandise inventory was not tracked.

Risk Level: Low

United States General Accounting Office, Executive Guide, March 2002, "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."

A previous audit conducted in 2013 found that the South Jordan Library did not track merchandise inventory. There was no record of inventory tracking, reconciling, or shrinkage. A retest showed that merchandise inventory is in like manner not tracked.

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

Recommendation

We recommend that the South Jordan Library track and reconcile their merchandise inventory.

Finding # 6 - Accountability for some capital assets was not appropriately established.

Risk Level: Low

Countywide Policy #1125 "Safeguarding Property/Assets," Section 2.2.3 states that property managers are required to:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody."

A previous audit conducted in 2013 found incorrect location codes/descriptions for capital assets. A retest was conducted and the "Salt Lake County Fixed Asset Inventory by Organization" report in like manner showed incorrect location codes/descriptions for 2 art capital assets.

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

Recommendation

We recommend that South Jordan Library report the correct location codes for all capital assets.

Finding # 7 - 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) and procedures. ... [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 a controlled asset that was assigned to an employee.

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 South Jordan Library use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.

Finding # 8 - Controlled asset records were not properly maintained.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property Assets," Section 4.3 states:

"The Property Manager shall maintain records to manage controlled assets... ."

A sample of nine controlled assets were selected to verify the accuracy of the Controlled Assets Inventory List. Of these nine, two (an iPad and a flat screen TV) were not listed on the inventory list.

When controlled asset records are not maintained with updated information, controlled assets are not properly managed resulting in the increased risk of assets being lost, stolen, or diverted for personal use.

Recommendation

We recommend that controlled asset records be maintained with updated information.

Additional Information

Background

The South Jordan Library is located at 10673 South Redwood Road (1700 West) in South Jordan. Built in 2005, the South Jordan Library is the home of the unique 110-foot long public art piece "River" by Day Christensen. The library offers a variety of amenities, including books, DVDs, music CDs and audio books. The library also offers computers with Internet access and word processing capabilities, as well as high speed wireless access, a large meeting room, and a small conference room. The South Jordan Library successfully accomplishes Salt Lake County Library Services' mission which is to make 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
- Accounts Receivable
- Accounts Payable
- Third Party Contracts

Our examination period covered up to twelve months ending April 30, 2014. 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. Retesting of prior audit findings was also performed, where applicable.

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



July 10, 2014

HUMAN SERVICES
DEPARTMENT
"Making a positive
difference"

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 South Jordan Library

Dear Mr. Hawkins:

This letter is submitted pursuant to the audit report of the Salt Lake
County South Jordan Library. We'd like to thank Deputy Auditor
Leonardo Flores for planning and completing the audit in accordance with
Utah Code Ann. §17-19a-204.

As reflected in our responses, we are determined 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 that reads 'James D. Cooper'. The signature is stylized and cursive.

James D. Cooper
Director

JAMES D. COOPER
LIBRARY DIRECTOR
jimcooper@slcolibrary.org

**LIBRARY
ADMINISTRATION**

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**Salt Lake County South Jordan 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 South Jordan 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 - 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:

The library staff is cross-trained in different areas of library operations to better utilize their time and to provide better customer service. It would not be cost-effective for the library to assign a dedicated cashier to each cash register due to low volume and low monetary value of transactions. The Library Management will look into the practicability of implementing a mid-day cash count which would help in establishing cashier accountability.

Finding # 2 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

Recommendation:

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

Management Response:

Utmost effort is made to separate closing cashiers from the opening responsibilities or preparing deposits. However, due to limited staffing resources and scheduling conflicts this is not always feasible. Preparing deposits is primarily the responsibility of the Library Circulation Supervisor and Assistant Supervisor. The library believes that sufficient compensating controls are in place to mitigate any risks to public funds.

Finding # 3 - The cash drawer can be opened without an electronic record of the transaction.

Risk Level: Moderate

Recommendation

We recommend that all transactions conducted on the point-of-sale system result in an accurate receipting, recording, and accounting of public money.

Management Response:

The library's Point of Sale software has a built in feature that allows for the cash drawer to be opened without a transactions record. The library staff has been instructed to stop using this feature. The software company has been notified and a fix is expected in a future software release.

Finding # 4- 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 South Jordan 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 seeking 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. The Library is also working with the County Information Services to provided PCI Awareness training to library staff that handles credit card payments; training will be completed by staff by the end of August 2014.

Finding # 5 – Merchandise inventory was not tracked.

Risk Level: Low

Recommendation:

We recommend that the South Jordan Library track and reconcile their merchandise inventory.

Management Response:

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. We will begin testing with 3 libraries no later than July 2014. It is anticipated that all libraries will be on board by the end of the year. With this new procedure in place merchandise inventory will be tracked and reconciled.

Finding # 6 – Accountability for some capital assets was not appropriately established.

Risk Level: Low

Recommendation:

We recommend that South Jordan Library report the correct location code for all capital assets.

Management Response:

The Library Services has informed the Capital Asset Division of Mayor Finance that corrections need to be made to South Jordan's capital asset inventory. We were informed they were in the process of converting their system and that there would be a new coding scheme. Library Services will work with the Capital Asset Division to make sure location codes are accurate.

Finding # -7 The "Controlled Assets Inventory Form- Employee" was not used.

Risk Level: Low

Recommendation:

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

Management Response:

The majority of the South Jordan controlled assets have a shared use, therefore cannot be assigned to individual employees. The Library manager is ultimately responsible for custody of all assets. However, we will complete a Controlled Asset Inventory Form-Employee for assets that are assigned to individuals.

Finding # 8 – Controlled asset records were not properly maintained.

Risk Level: Low

Recommendation

We recommend that controlled asset records be maintained with updated information.

Management Response:

The Library Manager is currently updating their controlled asset inventory.
