



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

**JEFF HATCH**

*AUDITOR*

February 24, 2009

Mr. James Cooper, Director  
Salt Lake County Library Services  
2197 E Fort Union Blvd  
Salt Lake City, UT 84121-3188

Re: Audit of Ruth V. Tyler Library

Dear James:

We recently completed a limited scope audit of the Ruth V. Tyler Library (Library). The audit's primary focus was the period from October 1, 2007 to September 30, 2008. During our examination, we reviewed cash receipting and depositing, controlled asset management, and performed an unannounced count of the Change Fund.

The lead auditor was Cherylann Johnson with assistance from Scott Tingley, who completed their fieldwork on November 25, 2008. Jim Wightman had administrative oversight of the audit.

For each of these areas, we examined internal controls and procedures in place to determine compliance with Countywide Policies. Our work at the Library was designed to provide reasonable, but not absolute, assurance that the system of internal controls was adequate, records were current, and daily transactions were valid. We have limited our comments to significant findings and recommendations, which are not all-inclusive of the scope of the work performed. Other areas of concern have been discussed with the management at the Tyler Library. The reader, therefore, should not assume that processes not discussed here are in compliance with Countywide Policy.

During our review, we noted some issues with the timeliness of deposits and some areas of deposit preparation procedures which could be improved. In addition, we identified some concerns in regard to proper segregation of duties among library cashiers which had an effect on daily cash balancing and deposit preparation. We have detailed our findings in the area of cash handling and depositing and included some recommendations on how to improve these procedures.

In general, we found that the management of controlled assets in the Library's possession was sound and that asset records were accurate and up-to-date. Our review of controlled assets included an inventory of a random sample of controlled assets to verify their existence and determine if proper internal controls were in place to help mitigate the risk that these assets could be lost, stolen, or converted to personal use. We found that the controlled assets included in our sample were properly identified and documented in the Library's controlled asset records.

### **CASH HANDLING AND DEPOSITING**

The Library acquired the Smart Money Manager computerized receipting system in September 2008. This new system allows integration of library patron accounts on the Horizon circulation system with daily cash receipting functions. The Library's employees eagerly reported that duplicate receipting entries were no longer necessary with the new system's capability to integrate the cash register system with the library patron account records.

Our audit included examining cash handling procedures to determine whether Countywide Policy #1062, "Management of Public Funds," was applied. We performed an unannounced count of all funds on the premises, including cash receipts not yet deposited, and the Library's Change Fund. Collections in the cash register drawer balanced to the daily Transactions Report. However, collections in the copier machine did not balance to their reported amount. Some issues with the change fund count resulted from the inaccuracy of the copier machine's internal change counter resulting in a minor shortage in the Change Fund amount.

To review cash handling and depositing, we selected a statistically-valid, random-sample of deposits from October 1, 2007 to September 30, 2008. We discovered the following during our examination for which we have made recommendations.

- ***The Change Fund did not balance to its authorized amount.***
  - ***More than one library cashier was assigned to work from a single cash register drawer.***
  - ***The number of daily collection overages and shortages was excessive.***
  - ***An independent review of individual cashier sheets and deposit amounts was not performed.***
  - ***Library deposits were not made in a timely manner.***
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**The Change Fund did not balance to its authorized amount.** We obtained a copy of the Salt Lake County Petty Cash and Other Imprest Accounts report and determined that the Library had an authorized Change Fund amount of \$110.00. The Library staff divided the Change Fund between the cash register drawer, \$76.00, and the copier machine, \$34.00. The cash register drawer amount less reported collections balanced to the authorized amount of \$76.00. However, the amount in the copier machine change box less reported collections balanced to \$33.60, a shortage of (\$0.40). Upon re-entering the change back into the copier machine, the machine's internal change counter indicated a different amount than what was counted and entered, indicating that the machine was not accurately counting the amount of change present in the machine.

As a general rule, the total amount of change present in the copier machine's change box is not counted on a daily basis. Library employees depend on the machine's internal counter to register the number of copies made during the day, and the resulting daily collection amount. The total amount of the Change Fund present in the copier machine's change box is only verified and counted when the machine is serviced, or when the Change Fund amount needs to be replenished.

Although the shortage was minor in total amount, if the copier machine's internal change counter is consistently miscounting the amount of change present in the machine, the total Change Fund balance is affected accordingly. Improper amounts of change could be given back to patrons or irregularities in copier change box deposit amounts could result. Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.9, states:

*"Any unaccounted-for funds (shortages) shall be investigated immediately. The custodian, after appropriate investigation, may be required to personally replenish the shortage, depending on the circumstances."*

This type of shortage resulted from a failure of the copier machine's internal change counter, and as such was beyond the control of the Library's staff. However, a proper count by the copier machine's internal counter is critical for maintaining the total Change Fund balance at its authorized amount.

#### **RECOMMENDATION:**

***The Library should have the copier machine serviced or reset so that the machine's internal change counter accurately reflects the change amount present in the copier's change box.***

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**More than one library cashier was assigned to work from a single cash register drawer.** As noted earlier, the Library implemented the Smart Money Manager computerized system for cash receipting purposes in September 2008. Prior to this, the Library used a manual cash register to process Library patron transactions. The new system only has one cash register drawer, and this was the

case with the old cash register as well. During the audit, multiple library cashiers were working out of the single cash drawer. To process a patron transaction, each cashier was required to enter a unique login ID and a password that identifies the individual cashier.

In a review of past Salt Lake County Internal Audit Division reports, this finding has been discovered at several other library branch locations in the past. This issue has been addressed with Library Administration and Salt Lake County Library Services management has responded by stating that they want the flexibility of allowing any given cashier to receive money from library patrons regardless of the availability of individual cash register drawers. Library Administration also has expressed concerns over the potential high cost of installing multiple cash register drawers and computer terminals at all of the different library branches.

With the new Smart Money Manager system, individual cashiers are identified and transactions can be isolated to a particular cashier. However, in the event of an overage or shortage, since all cashiers work from a single cash drawer, the transaction that caused the overage or shortage cannot be identified through the current process. Best practices would require that cashiers be assigned separate cash register drawers so that individual responsibility for overages or shortages could be traced to their source.

Under the current cash handling procedures at the Library, and the availability of only one cash register drawer, overages and shortages cannot be isolated to the cashier that processed the transaction. This creates a situation in which collections could be manipulated, and increases the risk that defalcation of funds could occur.

#### **RECOMMENDATION:**

***The Library should install at least one additional cash register drawer and computer terminal for processing patron transactions. In this way, at least two library cashiers could be assigned individual cash register drawers from which to process transactions. In the event that a cashier finds it necessary to transfer cashiering duties to another cashier during the day, the transfer could be properly documented with an MPF Form 7A, Fund Transfer Form, and the new cashier could assume cashiering duties from that cash register drawer.***

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**The number of daily collection overages and shortages was excessive.** During our review of cash handling procedures, we examined the Daily Cash Balance Sheets for a random sample of 58 deposit dates from October 1, 2007 to September 30, 2008. We noted that deposit overages in the sample occurred 28 times, or 48-percent of the time, and that deposit shortages occurred 17 times, or 29-percent of the time. We also reviewed all 12 monthly Cash

Over/Short Logs during this period for accuracy, completeness, and approval by both the Circulation Supervisor and Library Manager.

Table 1, below, summarizes the occurrences of overages and shortages of daily cash receipts that were discovered in the random sample of 58 deposit dates. Daily cash receipts were over or short 45 times, or 77-percent of the time.

<b>Daily Cash Receipts Sample Over/Short</b>			
<b>Deposit Condition</b>	<b>Number of Occurrences</b>	<b>Percentage</b>	<b>Largest Amount</b>
Over	28	48%	\$ 4.39
Short	17	29%	(3.20)
Balanced	13	22%	-
<b>Total Sample</b>	<b>58</b>	<b>100%</b>	<b>\$ 1.19</b>

**Table 1:** Library daily cash receipts were over or short 45 times in a sample of 58 deposit dates, or 77-percent of the time.

Table 2, below, summarizes the data from the Library's monthly Cash Over/Short Logs for the 12-month period from October 1, 2007 to September 30, 2008. According to the monthly Cash Over/Short Logs, cash receipts were either over or short 172 times during the 12-month period. The largest overage amount in a single day occurred in September 2008 and was \$10.55. The largest shortage amount in a single day occurred in August 2008 and was (\$23.70). The monthly Cash Over/Short Log for October 2007 could not be found in the Library's records.

<b>Monthly Cash Over/Short Log Summary</b>					
<b>Month</b>	<b>Number of overages</b>	<b>Number of shortages</b>	<b>Total number over/short</b>	<b>Largest overage</b>	<b>Largest shortage</b>
Oct-07	No data	No data	No data	\$ -	\$ -
Nov-07	6	5	11	0.85	(10.50)
Dec-07	6	6	12	0.40	(4.50)
Jan-08	9	6	15	1.90	(2.24)
Feb-08	4	12	16	1.47	(2.00)
Mar-08	10	10	20	5.62	(13.51)
Apr-08	7	8	15	2.70	(18.94)
May-08	10	4	14	9.24	(7.50)
Jun-08	13	5	18	3.10	(3.01)
Jul-08	12	8	20	4.39	(14.26)
Aug-08	11	6	17	9.90	(23.70)
Sep-08	11	3	14	10.55	(1.35)
<b>Totals</b>	<b>99</b>	<b>73</b>	<b>172</b>		

**Table 2:** Library daily cash receipts were over or short 172 times during the 12-month period from October 1, 2007 to September 30, 2008. The monthly Cash Over/Short Log for October 2007 could not be found.

Although we found that daily cash overages and shortages were consistently documented by using the monthly Cash Over/Short Logs at the Library, there were no internal controls in place that allowed the Library Manager to trace overages or shortages to their origin. When Library employees were asked about what could be common causes for excessive overages or shortages, they indicated that cashiers more than likely gave back incorrect change or did not collect the correct amount from the patron when processing a transaction.

Countywide Policy #1062, details how County agencies should deal with daily collection overages and shortages. Section 5.1 of the Policy states:

*“Those transactions with shortages greater than the approved amount should be considered partial payments if installment payments have been approved. Otherwise, the payee must be billed for the shortage if the payment was to have been final. If overages occur appropriate steps should be taken to refund the overage consistent with Countywide Policies #1202, 1203, and 1205, or to credit the account of the remitter, if appropriate.”*

Because the majority of Library transactions are the payment of patron fines and fees on account, each overage or shortage has the potential of resulting from the improper handling of a library patron's account. Each daily collections' shortage could result from not receipting the full amount from a patron. Likewise, each daily collections overage could result from not properly crediting a patron's account.

By knowing that they are not held individually responsible for any overage or shortage of daily collections, the risk that library cashiers could misappropriate funds is greatly increased. Currently, because the Library operates only one cash register drawer, it is impossible to determine the direct cause of any daily collections overage or shortage. Properly documenting and holding individual cashiers responsible for overages or shortages would help mitigate some of the risk that an embezzlement of funds could occur.

#### **RECOMMENDATION:**

***The Library should install at least one additional cash register drawer and computer terminal for processing patron transactions. Individual cashiers could then be assigned responsibility for cash register funds and any overages or shortages that occur could be traced back to a specific cashier. If a significant shortage or pattern of shortages occurs in the accounts of any cashier, the situation could be investigated.***

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**An independent review of individual cashier balance sheets and deposit amounts was not performed.** As part of our review of cash handling and depositing, we examined internal controls in place that are designed to mitigate some of the risk that funds could be mismanaged or misappropriated through fraud or other means. One such internal control is requiring that daily deposit amounts

be reviewed and verified by an independent party that did not perform daily cashiering duties or take part in preparing that day's deposit.

Each weekday morning, and each Monday morning for Friday and Saturday transactions, the Library Circulation Supervisor prepares the daily deposit for the previous working day's receipts. The total amount of funds are retrieved from the safe and counted. The imprest Change Fund amount of \$76.00 is re-established and placed in the cash register drawer.

Next, the daily deposit amount is counted and the deposit is prepared using the Daily Cash Collections Form, the Daily Cash Balance Sheet, and the daily Transaction Report. The Circulation Supervisor also takes collections from the copier machine based on the reading from the copier's internal counter. This amount is documented using the Copier Coin Box Form, and is also included on the Daily Cash Balance Sheet and Daily Cash Collections Form. Deposit funds are listed on the deposit slip, and are sealed in a tamper-proof plastic bag. The deposit bag and copies of deposit paperwork are then placed in the safe to await pickup by the Library system's service truck operator.

Along with other duties at the Library, the Circulation Supervisor regularly acts as a library cashier. In the event that the Circulation Supervisor is not present to prepare the deposit, another Library employee takes over those duties. However, during our examination of deposits, we found that there was no independent review of cashier account balancing totals and the daily deposit amounts, when the person preparing the deposit also performed cashiering duties the day before. This creates a control weakness because a single library employee has control of the funds from the point of collection through the preparation of the deposit without an independent review of the documentation and the cash register drawer total to ensure that all funds are accounted for.

We had the expectation from previous audits that the independent review of at least the balancing and deposit documentation was taking place at Whitmore Library. However, after reviewing the deposit process with Library Administration, it was determined that a review of the Library deposits is not performed by the Whitmore Library Administration office, once the deposits reach the Whitmore Library.

An independent review of cashier balancing and the deposit slip entries with the receipting and depositing paperwork would provide a mitigating measure when proper segregation of duties was not possible due to lack of Library staff. As it stands, the current library cashier-balancing and deposit procedure allows one employee to have access and control over funds throughout the entire collection and deposit process.

Proper segregation of duties among cash-handling library employees is an essential internal control that is designed to separate the functions of those employees responsible for performing cashiering duties and those that establish accounting records or have management control over the funds. In the absence of

sufficient staff, an independent review can be a strong mitigating procedure. The introduction to Countywide Policy #1062, states,

*“The policy provides suggested internal controls for the segregation of duties in such a way that persons who are responsible for the custody of funds and performance of cashiering duties have no part in the keeping of, nor access to, those records which establish accounting control over the funds and operations (and vice versa). 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.”*

We found that the Library’s deposit preparation process lacked sufficient internal controls that would maximize library employee protection and minimize the risk that falsifications of cashier balancing accounts could go undetected.

**RECOMMENDATION:**

***Whenever possible, an independent review of cashier balancing and the deposit amounts should be performed. Space should be provided on the Daily Cash Balance Sheet for a signature of the person performing the review.***

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**Library deposits were not made in a timely manner.** During our examination of a sample of 58 daily deposits from October 1, 2007 to September 30, 2008, we determined that the Library’s daily deposits were not received at the bank in a timely manner. We obtained copies of the depository bank statements for all 12 months during the period and compared these with actual deposit collection dates and found that 21 of the deposits, or 36-percent, occurred 4 or more days after collection. One of the daily deposits, or 2-percent, was made 5 days after collection, and 2 deposits, or 3-percent, were made 6 days after collection.

Because of the delay in depositing, over one-third of the daily deposits that were part of our sample were not deposited at the bank until four or more days after collection. Countywide Policy #1062, Section 3.7.2, states,

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

Figure 1, on page 9, displays a chart that compares the date of collection with the number of days until the bank recorded receiving the deposit funds in our random sample of deposit dates. Bars in red indicate deposits that were not in compliance with the stated Countywide Policy.

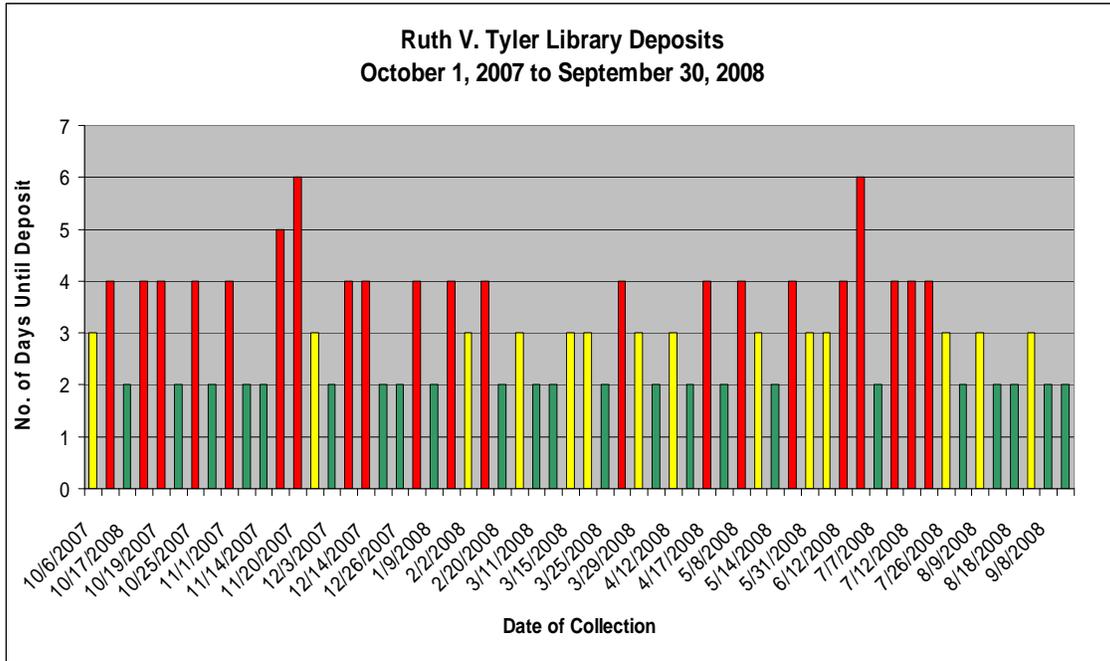


Figure 1: Number of days that it took for funds that were collected to be deposited.

**RECOMMENDATION:**

***A library employee at each branch should prepare and deliver the deposit to the closest approved depository bank location on a daily basis whenever practical.***

**CAPITAL AND CONTROLLED ASSETS**

By definition, a capital asset is an individual item owned by the County that meets the criteria for capitalization. Currently, the capitalization threshold is \$5,000. A controlled asset is an item having a cost of \$100 or greater, but less than the current capitalization threshold, and which is sensitive to conversion to personal use. However, personal communication equipment, such as a cell phone or PDA, is considered a controlled asset regardless of the cost of the individual item. We reviewed capital and controlled asset management practices for compliance with the provisions in Countywide Policy #1125, "Safeguarding Property/Assets."

To identify capital and controlled assets currently in the possession of the Library, we obtained a Salt Lake County Capital Asset Inventory Report (AFIN0801) for Library Services. There were no "moveable" capital assets listed on the capital asset report, which were assigned to the Library. Controlled assets are not tracked centrally by the County as capital assets are. The Library Manager maintains an inventory of non-computer related controlled assets at the Library,

and Library Information Services maintains an inventory of all computer related controlled assets at the Library.

We obtained current copies of each of these controlled asset inventory lists and examined a statistically valid, random-sample of 42 controlled assets out of 121 total active controlled assets. We were able to locate and identify all 42 controlled assets in the sample without exception. Status changes were noted on the Library's Controlled Asset Inventory Form, and the last controlled asset inventory was performed on April 10, 2008.

In general, we found that the management of controlled assets in the Library's possession was sound and that asset records were accurate and up-to-date. Overall, we found the Library Manager's controlled asset management practices and the efforts of the Library's staff in regard to properly identifying controlled assets were commendable.

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In closing, we express appreciation to the staff at the Ruth V. Tyler Library for the cooperation and assistance they gave us during our audit. Implementation of the recommendations in this letter will help to improve operations, ensure the security of County assets, and strengthen internal controls throughout the library. We trust that our work will be of benefit to your staff. 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: Michael Stoker  
Lorraine Jeffrey