



December 31, 2012

Mayor Ben McAdams
Salt Lake County
2001 South State Street N2100
Salt Lake City, UT 84114-4575

Re: A Limited Scope Audit of the Herriman Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of the Herriman Library (Library). Our scope was limited to verification of the accuracy and completeness of financial records, and compliance with internal controls related to cash handling procedures and capital and controlled assets management. Our audit covered the one-year period from May 2011 through April 2012 and included an unannounced count of the change fund. We also reviewed cash receipting and depositing procedures, and capital and controlled asset management. Our audit objectives were to determine compliance with the internal controls for cash handling found in Countywide Policy #1062, "*Management of Public Funds*," and asset management found in Countywide Policy #1125, "*Safeguarding Property/Assets*."

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. Our review of deposits was done on a sample basis; therefore, problems may have occurred in deposits that were not selected for review. However, a statistically significant random sample is designed to provide a degree of assurance that the complete nature of transactions and processes is examined. In addition, findings relating to non-compliance with Countywide Policies may be present in areas not examined. We have limited our comments to significant findings and recommendations, and have divided the report into the following sections:

- **Cash Handling and Depositing**
- **Capital and Controlled Assets**

We noted several positive control activities for cash handling and controlled asset management in place at the time of our audit, including the following:

- Staff members were professional in fulfilling their duties and were aware of the need for internal controls over cash handling.
- All voided transactions we reviewed were approved by a second person and were documented with a Library void form.

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- During our unannounced cash count, funds in the cash registers balanced to the change fund amount and register reports of collections.
- Safeguards were in place to adequately protect the change fund at night or during non-business hours.
- An explanation and reason for the waiver was listed on each “Fine and Fee Waiver” form, as well as the amount waived and the card number of the patron.
- The assets located at the Library were accurately recorded on the Controlled Assets Inventory Lists.

Overall, it appears that many sound internal control procedures are in place and functioning properly. The Herriman Library management and staff are to be commended for their efforts in this regard. Nonetheless, we did find some areas where improvements could be made.

CASH HANDLING AND DEPOSITING

The money collected at Herriman Library is primarily for fines paid for overdue books, CDs, DVDs, or other materials that are checked out plus replacement fees and costs of lost or damaged books and materials. Money is also collected for sales of used library materials, equipment rentals, replacement of lost library cards, and for out-of-County library cards. The Library has two cashier stations, a coin-operated copier, and an EnvisionWare coin box which is used to collect money from patrons who want to print copies of Internet pages.

We examined the cash receipting and depositing process to determine whether the Library was in compliance with Countywide Policy #1062, *Management of Public Funds*. To initiate our work, we performed an unannounced count of the change fund and collections in each of the cash registers, the copier, and EnvisionWare coin box. The Library’s change fund balance, when counted with that day’s collections, balanced to its authorized amount. Funds in the two cash registers balanced to their assigned change fund amounts plus that day’s collections without exception.

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 recommendations for improving these procedures. The findings resulting from our review of cash handling procedures and testing of deposit documentation are as follows:

- ***“Fine and Fee Waiver” forms were not used in numerical sequence and some were missing.***

- *Some deposits occurred after the State-mandated deadline of no later than three days following collection.*
- *More than one cashier uses a cash drawer during the day.*
- *Individual accountability for overages and shortages in cash drawers was not established.*
- *There was an inadequate separation of duties between cash receipting, the transfer of receipted funds to the safe, and the preparation of the deposit.*

“Fine and Fee Waiver” forms were not used in numerical sequence and some were missing. County libraries collect fines and fees incurred by patrons for overdue, lost, and damaged items. In some instances, fines and fees are waived by Library personnel. When this occurs, Library policy requires that an approval form be completed. The policy also requires that the employee handling the waiver update the patron’s library record. Each library employee at the Circulation Desk can waive fines or fees depending on the circumstances from the patron, and if the reason corresponds to one of the reasons that has been established by the Library Administration. There must be “good cause” for such an action, and the waiver of fines/fees must be approved by a supervisor.

On occasion, the Library offers special waivers to patrons. Examples of special waivers include the “Food for Fines” program, where a non-perishable food item may be brought to the Library to “pay” for fines, and the “Read Off Your Fines” program, where patrons are allowed to read in exchange for waiving fines on their library records.

A “Fine and Fee Waiver” form (Form #C32 6-10 TRH) is completed each time a fine/fee is waived. The forms have a pre-printed receipt number on them and sections for the following information:

- Library Branch
- Date
- Card number of the patron
- Amount of the waiver
- Name of the employee authorizing the waiver
- Name of the employee approving the waiver
- Reason(s) for the waiver
- Explanation for the waived amount
- Customer signature*

*If the waiver is done over the telephone, there is not a customer signature.

The pre-numbered forms originate from Library Administration and are replenished when requested from the branch library. The Marketing Department keeps a record of which number sequences have been issued to each library.

A patron can challenge fines/fees and receive a waiver for various reasons noted on the “Fine and Fee Waiver” form. The form has signature lines for the patron, staff authorization, and supervisor approval. Properly completed forms provide a control mechanism whereby more than one staff member reviews the transaction. Using the forms in numerical sequence is also a control mechanism. It identifies if any forms are missing, how many are used, and by whom. It also serves as a confirmation tool between the cash register transactions and the Smart Money Manager (SMM) generated reports.

The “Fine and Fee Waiver” forms are used as evidence that a fine/fee has been deleted from a patron’s record. The use of the form helps the Library keep a record of amounts that are waived. Figure 1, below, shows the total count and amount for the monthly waivers from May 2011 through April 2012.

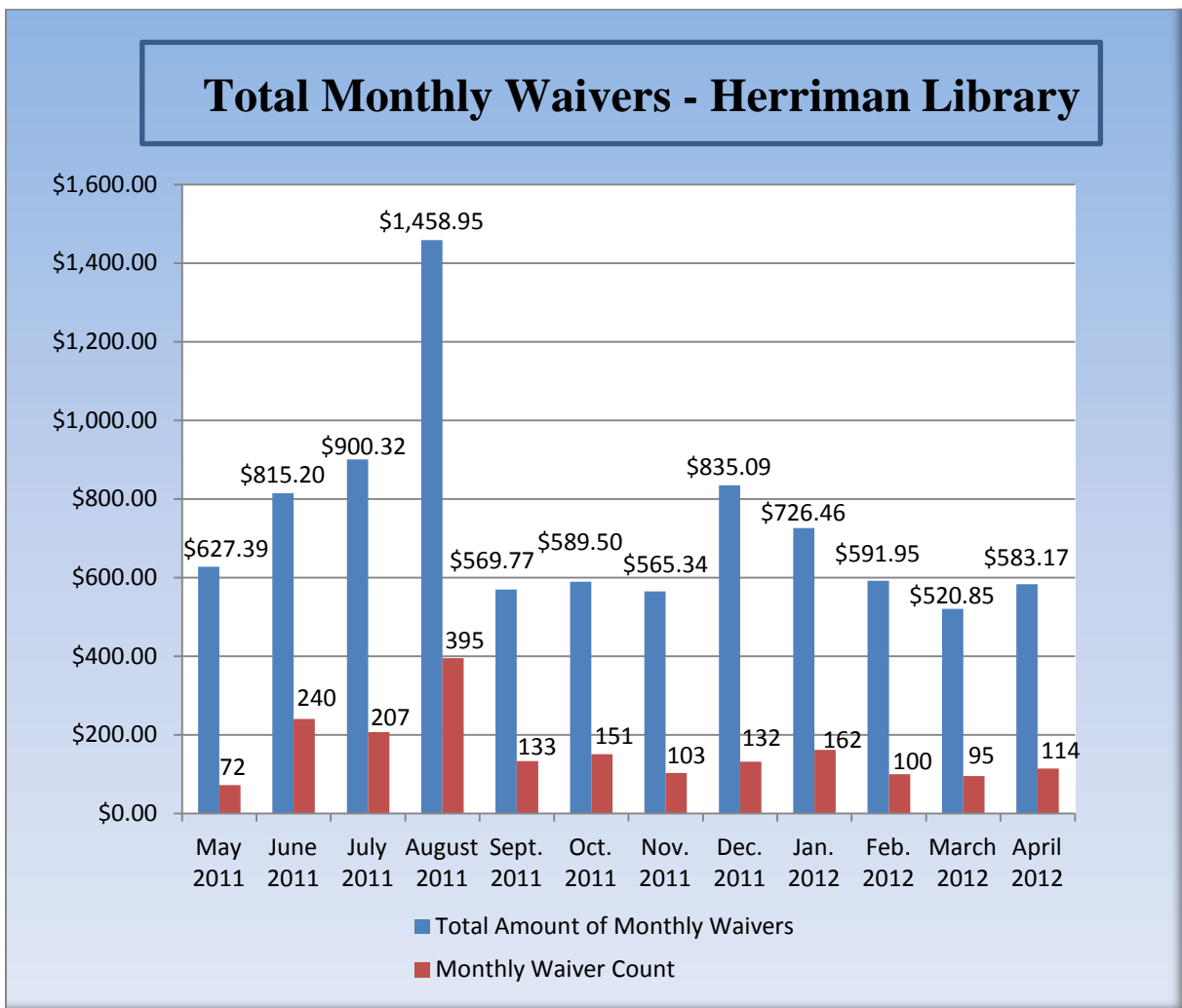


Figure 1: Monthly waivers at Herriman Library increase during the summer months due to special waivers given to patrons who read in exchange for waiving fines on their library patron records.

We examined 133 “Fine and Fee Waiver” forms that were completed on the 40 deposit dates in our sample. During our review of the forms, we noted that an explanation

and reason for the waiver was listed on each waiver form as well as the amount waived and the card number of the patron. The customer signature was completed in all cases except when the waiver was initiated over the phone.

We noted, however, that the “Fine and Fee Waiver” forms were not used in numerical sequence and some were missing. In the Salt Lake County Library Circulation Manual, Operating Standards and Procedures: Fine and Fee Waiver Section, it states,

Care should be taken that waiver forms are used sequentially. Forms that have been voided for any reason must be saved and added to the daily deposit paperwork. Those libraries having more than one cash register should assign a group of numbers to each register and should keep a log of which numbers are assigned to each register.

When the waivers are used out of numerical sequence and there is no reconciliation between the waivers that are issued to the Library and the waivers that are used, they could be inappropriately substituted for cash. Furthermore, there is no accountability and no way to know if missing forms have been voided or used on other days. If mistakes are made on a form, the “Fine and Fee Waiver” form should be retained, marked “void,” and kept with the numerical sequence attached to the deposit documentation.

Because, the “Fine and Fee Waiver” forms are stored in a drawer near each cash register, they can become shuffled. This would explain problems with numerical sequencing and missing forms. However, to be an effective control mechanism, the “Fine and Fee Waiver” forms need to be used in numerical sequence. Without this control, there is opportunity for an employee to accept payment for a fine or fee, waive the fee or fine in the patron record in the Horizon system, and divert the funds to personal use.

RECOMMENDATION:

We recommend that internal controls be implemented to ensure that waiver forms are used sequentially.

Some deposits occurred after the State-mandated deadline of no later than three days following collection. Funds collected at the cash registers are in the form of cash, check, and credit cards. Funds collected in the copiers and the EnvisionWare coin machine are also included in the deposit. The deposit is prepared by one of four Library staff members in the Circulation section.

At the end of the day, the designated staff in the Circulation section closes the day’s activity in the cash registers which provides summary and detail reports of the day’s transactions. The funds, together with other cash receipting documents (e.g., credit card receipts, waivers, voids, “No Sales,” etc.) 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, checks, credit card

receipts, and other cash receipting documents from the safe. The coin boxes for the copier and the EnvisionWare machine are opened each day, the activity is noted on a worksheet, and the appropriate amount of cash is removed from the machines.

An employee in the Circulation section (usually the Circulation Supervisor or Assistant Circulation Supervisor) counts the total cash, checks, and credit card receipts in the cash drawer. The “Daily Cash Collections Form” and “Daily Cash Balance Sheet Forms” are completed and the deposit is prepared. The deposit is placed in a tamper-proof deposit bag and held in the safe for pick-up.

One of the objectives of our review was to determine timeliness of the deposits, an objective we accomplished by examining a statistical sample of 40 deposits from May 2011 through April 2012. We found that 14 of the 40 deposits examined, or 35 percent, were made four or more days after the receipt of the funds, as shown in Table 1, below.

Timeliness of Deposits		
Number of Days Between Collection Date and Deposit Date	Number of Deposit Occurrences	Percentage
2	21	52%
3	5	12%
4	7	18%
5	6	15%
6	1	3%
Total Sample	40	100%

Table 1: *In our sample of deposits, 35 percent were made after the time period mandated in Countywide Policy.*

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.

Deposits were delinquent due to the process in place for transferring deposits to the bank. The Library is open until 9:00 p.m. Monday through Thursday, and until 6:00 p.m. on Friday and Saturday, which is after most banks are closed. Therefore, at least one day’s delay occurs before the deposits could be made. In addition, the current process used by the Library System adds to the delay and also puts the funds at risk. *Note: We do not discuss in this report the details of the current depositing procedure for security purposes.*

In a review of past audit reports prepared by the Salt Lake County Auditor’s Office, this condition has been identified at other library branch locations. This issue has been addressed with Salt Lake County Library Administration and management has responded by stating that the Library could not implement the recommendation to have library employees

at each branch deliver deposits to the bank on a daily basis due to limited staff size and questionable benefit due to the size of the average deposit.

Undeposited funds are not as secure as they would be in the bank, and they lose interest that would otherwise accrue from investments made by the County Treasurer. In addition, collections should be handled by as few people as possible.

RECOMMENDATION:

We recommend that the Library revise the current deposit process to ensure that deposits are made in accordance with Countywide Policy.

More than one cashier uses a cash drawer during the day. Throughout a typical day, several cashiers work at the two cash registers. Generally, cashiers are assigned to one cash register for a limited amount of time and then rotated to another assignment. The cashiers do not independently verify the accuracy of the money in the cash register when they begin their cashiering shift. Therefore, responsibility for cash outages cannot be assigned to any one cashier.

When the amount of cash in the drawer is established, cashiers have assurance that their actions affect the accuracy of collections, and any resulting overages or shortages. We recognize that the frequent rotation of cashiers at the cash register makes verification inconvenient. Nonetheless, to have the best internal control, there should be a single cashier accountable for a single cash drawer at a time. If multiple cashiers are assigned to a single cash drawer, it is more difficult to track any potential problems. In addition, cashiers may feel less responsibility than they would if they were wholly responsible for their cash drawer.

We noted that each cashier is assigned an identification code which they must enter into the cash register each time they process a transaction. When the code is entered, the cash register software creates a log of all transactions and activity performed by the cashier. Therefore, a transaction can be traced to a specific cashier. However, the log cannot be used to trace the origin of overages and shortages.

RECOMMENDATION:

We recommend that each cashier be assigned a cash drawer. If management elects to continue the procedure of having more than one cashier using a cash drawer, the feasibility of cash counts and transfers of funds to the incoming cashier at the beginning of each shift should be explored.

Individual accountability for overages and shortages in cash drawers was not established. Section 5.3.1 of Countywide Policy #1062 requires that overages and shortages be recorded by each cashier on MPF Form 11, *Cash Over/Short Log*. The form prescribed for this use in the policy is designed to be an individual form as it has a line for the employee's name at the top and a column for their initials next to each day's over/short entry. By having this form completed on an individual basis, management can monitor each

cashier’s pattern of overages and shortages, and thereby review for both potential theft and other performance issues.

However, during our review at the Herriman Library, we noted that the Library has created their own Cash Over/Short Log and only cumulative overages and shortages for each day are recorded and monitored. On the 40 days in our random sample, these cumulative outages ranged from an overage of \$23.55 to a shortage of (\$2.00). Current practices at the Library make it impossible to determine individual responsibility for these outages, as cashiers on each cash register change regularly throughout the day, based on a pre-determined schedule, and only the reports at the end of the day are used to complete balancing procedures.

During the period of our review, May 2011 through April 2012, we noted that deposit overages in the sample occurred 12 times, or 30 percent of the time, and that deposit shortages occurred 4 times, or 10 percent of the time. Table 2, below, summarizes the occurrences of overages and shortages that were noted in the random sample of 40 deposit dates.

Overs/Shorts on Daily Cash Balancing in Sample of Deposits			
Deposit Condition	Number of Occurrences	Percentage	Largest Amount
Over	12	30%	\$23.55
Short	4	10%	(\$2.00)
Balanced	24	60%	-
Total Sample	40	100%	-

Table 2: Daily cash receipts were over or short 16 times, or 40 percent of the time in a sample of 40 deposit dates. Note: Days which had only over/short amounts from the copier or the EnvisionWare coin box were not included in the totals.

We reviewed 12 Monthly Cash Over/Short Logs for accuracy, completeness, and approval by both the Circulation Supervisor and Library Manager. Table 3, on page 9, summarizes the data from the Library’s Monthly Over/Short Logs for the 12-month period from May 2011 to April 2012. According to the monthly Cash Over/Short Logs, cash receipts were either over or short 107 times during the 12-month period.

Summary of Monthly Cash Over/Short Logs					
Month	Number of Overages	Number of Shortages	Total Number of Overs/Shorts	Largest Overage	Largest Shortage
May 2011	5	3	8	\$2.00	(\$5.00)
June 2011	8	2	10	\$1.01	(\$2.00)
July 2011	6	0	6	\$10.00	\$0
Aug. 2011	2	3	5	\$.05	(\$3.00)
Sept. 2011	6	4	10	\$10.00	(\$5.00)
Oct. 2011	6	6	12	\$144.48*	(\$3.00)
Nov. 2011	8	3	11	\$23.55	(\$2.00)
Dec. 2011	6	1	7	\$.20	(\$0.05)
Jan. 2012	8	2	10	\$1.01	(\$0.05)
Feb. 2012	3	4	7	\$4.17	(\$1.00)
Mar 2012	6	1	7	\$1.01	(\$0.80)
April 2012	7	7	14	\$3.45	(\$3.00)
Totals	71	36	107		

Table 3: During the 12-month period we reviewed, there were 107 total outages in the cash receipts. Note: Days which had only over/short amounts from the copier or EnvisionWare coin box were not included in the totals.

*Overage was due to Smart Money Manager Software not correctly recording transactions and skipping transactions.

Although we found that daily cash overages and shortages were consistently documented by using the Monthly Over/Short Logs created by 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 outages, 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, Section 5.3.1 states,

All overages and shortages, regardless of the amount, should be recorded daily by each cashier on MPF Form 11, Cash Over/Short Log. When a significant shortage or a pattern of shortages occurs in the accounts of any cashier, Agency Management shall conduct an investigation of the circumstances and report their findings to the Auditor's Office. This reporting can be accomplished informally by email.

By knowing that they are not held individually responsible for any outages of daily collections, the risk that Library cashiers could misappropriate funds is greatly increased. 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.

The Library has two cash register drawers which could be assigned to individual Library cashiers to process 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 outages occurred in the accounts of any cashier, the situation could be investigated.

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.

RECOMMENDATIONS:

- 1. We recommend that the Library significantly improve their ability to establish individual cash drawer accountability by scheduling their cashier shifts for two to three hours in duration, assigning one cashier to a cash drawer, and counting the money in the drawer before a new cashier begins a shift.***
- 2. We recommend that each cashier's overages and shortages be listed on a separate Over/Short Log, initialed by the cashier, and reviewed and signed by a supervisor each month.***

There was an inadequate separation of duties between cash receipting, the transfer of receipted funds to the safe, and the preparation of the deposit. The employee who prepares the deposit also covers one or more of the day's cashiering shifts. As a result, that person receives some of the funds that are also counted and included in the deposit.

Although an employee at Library Administration reviews the deposit paperwork, this is done after funds have already been placed in a sealed tamper-proof deposit bag. The current situation allows some employees to exclusively control transactions from the receipt of funds to the sealing of those funds in a deposit bag, which creates an opportunity for funds to be diverted to personal use.

Separating these duties to the maximum extent possible is in harmony with the intent of Countywide Policy #1062. The policy's introduction 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 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.

For effective internal control, a single employee should not exclusively control a monetary transaction. 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.

Cash handling duties can be divided into three stages: receiving, depositing, and reconciling. Ideally, all three stages would be performed by different individuals. The purpose of this segregation of duties is to minimize the opportunity for an employee to misappropriate funds and avoid detection. If it is not feasible to fully segregate all of the cash-related duties, the Library should rely on compensating controls (e.g., increased monitoring) to mitigate the risk that cash could be misappropriated.

RECOMMENDATION:

We recommend that deposit preparers not be scheduled to perform cashier duties and collecting funds that they will handle while preparing the deposit; if Library Management determines that the cost of compliance is too high to implement this recommendation, compensating controls should be introduced.

CAPITAL AND CONTROLLED ASSETS

We reviewed capital and controlled asset management practices for compliance with the provisions in Countywide Policy #1125, “*Safeguarding Property/Assets.*” Our review included an inventory of a statistical 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 otherwise converted to personal use.

We also reviewed the capital assets at the Library. 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.

To identify capital assets at the Library, we obtained a Salt Lake County Capital Asset Inventory Report (AFIN0801) for the Library System. The capital assets report showed seven capital assets for the Herriman Library; we located these assets.

Controlled assets are not tracked centrally by the County as capital assets are. For controlled assets, the Library System maintains two lists, one for computer-related equipment and peripherals, and one for non-computer equipment. The Library System assigns responsibility for controlled assets to both a central Property Manager, who works out of Library Administration at the West Jordan Library, and to individual Library Branch Managers. Oversight of computer equipment and peripherals, such as monitors, printers, processors, and scanners is assigned to Library Information Services (I.S.) personnel. The I.S. personnel maintain a list of computer-related equipment and peripherals, and the Library Manager maintains the inventory of non-computer related controlled assets at the Library.

We obtained current copies of both of the Controlled Assets Inventory Lists and examined a statistical random sample of 68 controlled assets. We were able to locate and identify all 68 controlled assets in the sample. We found that the controlled assets included in

our sample were properly identified and documented in the Library’s controlled asset records.

During our inventory, we noticed ten computers, one scanner-laser, and the EnvisionWare re-value station in the Public Access area that were missing the Library Bar Code tags. During our inventory of the computer-related equipment, we verified these assets by their make, model, and serial numbers. These controlled assets are identified in Table 4, below.

Controlled Assets That Were Missing Bar Code Tags			
Bar Code Listed on Controlled Assets Inventory List	Item	Manufacturer	Model
31181066298770	Computer	Dell	740
31181066308876	Computer	Dell	580
31181066309015	Computer	Dell	580
31181066308900	Computer	Dell	580
31181066308991	Computer	Dell	580
31181066308827	Computer	Dell	580
31181066308926	Computer	Dell	580
31181066308843	Computer	Dell	580
31181066308959	Computer	Dell	580
31181066308918	Computer	Dell	580
31181066299893	Re-Value Station	EnvisionWare	5400
31181066308033	Scanner-Laser	Symbol	LS4208

Table 4: *During our inventory of the controlled assets at Herriman Library, we noted that several controlled assets were missing the Bar Code tags.*

In order to easily read the Library Bar Code tags when performing inventories, the tags on the computers (located throughout the Library for patron use) have been placed on the sides of each computer case. It was evident when looking at the assets that the Bar Code tags had been placed on the items; however, because the tags are accessible to the Library patrons, the tags were likely removed by patrons who were using the computers. The tags on the scanner-laser and the EnvisionWare coin box were also likely removed by patrons. We are not recommending that the placement of the tags be changed. We are only notifying the staff of the need to replace the Bar Code tags on the controlled assets.

General accountability for controlled assets is the responsibility of each organization's Property Manager. Due to the size of the Salt Lake County Library System, there are hundreds of computers, monitors, and other computer-related assets located throughout the various library branches. These controlled assets are sensitive to conversion to personal use if they are not properly safeguarded and closely tracked by management.


We commend those in charge of tracking and safeguarding the controlled assets at the Herriman Library for their attention to maintaining the Controlled Assets Inventory Lists for the Herriman Library. The Controlled Assets Inventory Lists accurately showed additions

and deletions of assets which provided an accurate basis for conducting our inventory. Moreover, items were added to or deleted from the respective Controlled Assets Inventory List as purchases occurred or as assets were transferred to surplus or to another library location.

In closing, we express appreciation to the staff at the Herriman Library and Library Administration staff for the cooperation and assistance they gave us during our audit. We trust that implementation of the recommendations made in this letter will help to improve operations, ensure the security of County assets, and strengthen internal controls throughout the Library. If we can be of further assistance to you in this regard, please contact us.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

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