

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
South Jordan Library

December 31, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 31, 2013

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

Re: An Audit of the Key Controls of 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 Deck 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 Roger K. Larsen
Audit Division Director

cc: Jim Cooper, Library Director
Javaid M. Lal, Administrative and Fiscal Manager
Matt McLain, Library Manager

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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 segregation of duties, cash depositing, cash receipting, PCI compliance, and safeguarding personally identifiable information have a higher likelihood of being a liability to the County.

Findings and Recommendations

Finding # 1 - 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 recorded, 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 the Draper Library use MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.

Finding # 2 - The name of the South Jordan Library change fund custodian did not match Mayor's Financial Administration records.

Risk Level: Low

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 8.3.2 states the following regarding the assumption of duties of a new custodian:

"Responsibility remains with the current Custodian until the final MPF Form 6 is completed and submitted with the signed MPF Form 2 to the Auditor [Mayor's Financial Administration]. Only when these steps are accomplished will the responsibility transfer to the new Custodian."

The change fund custodian at the South Jordan Library was not the current custodian of record in Mayor's Financial Administration.

When the name of the change fund custodian is not updated with Mayor's Financial Administration, responsibility and accountability for the fund may be compromised.

Recommendation

We recommend that the South Jordan Library update the name of the change fund custodian by filling out Section II of MPF Form 2 and submitting it to the Mayor's Financial Administration.

Finding # 3 - 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."

The "Salt Lake County Fixed Asset Inventory by Organization" report showed the incorrect location code for five 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 # 4 - Personally Identifiable Information was unsecure during the online library card sign-up process.

Risk Level: Low

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

Finding # 5 - Individual accountability was not established for funds entrusted to each cashier.

Risk Level: Low

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

Risk Level: Low

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

"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)."

We found that no cash balance sheets had been signed by an independent party as evidence of review.

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

Recommendation

We recommend that cash balance sheets be signed as evidence of review by another employee designated by Agency Management.

Finding # 7 - Employees working as cashiers also prepared the deposit.

Risk Level: Low

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."

Employees who 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 # 8 - "No-sale" and "no money taken" transactions were not documented with an explanation.

Risk Level: Low

Salt Lake County Library Agency Administrative Policy, Section 2.1.3.7.2 states:

"When it is necessary to make change from the cash register using 'No Sale,' write a brief explanation on the receipt as to why it was made."

We reviewed all "no-sale" and "no money taken" transactions and found that none of them had an explanation documented on the receipt as to why the no-sale transaction was made.

When explanations for "no-sale" and "no money taken" transactions are not documented, there is an increased risk of funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend that "no-sale" and "no money taken" transactions be documented with an explanation as to why they were made.

Finding # 9 - 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 South Jordan Library was not tracking merchandise inventory. We found 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 recommend that the South Jordan Library track and reconcile their merchandise on hand.

Finding # 10 - 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 South Jordan Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Finding # 11 - Internal controls over payments 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 receipt 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 Managers."

We observed that employees posting cash receipts were the same as those collecting payments received by mail. Additionally, checks received by mail were not recorded in a log.

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

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.

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

Our examination period covered up to twelve months ending October 10, 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 31, 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 South Jordan Library

Dear Mr. Hawkins:

This letter is in response to the audit report of Salt Lake County South
Jordan Library. Thank you 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 'J. Cooper', written over a faint circular stamp.

James D. Cooper
Director

JAMES D. COOPER
LIBRARY DIRECTOR
jimcooper@slcolibrary.org

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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 - A fund transfer log was not used.

Risk Level: Low

Recommendation

We recommend that South Jordan Library use 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

Finding # 2 – The name of the South Jordan Library change fund custodian did not match Mayor's Financial Administration.

Risk Level: Low

Recommendation

We recommend that the South Jordan Library update the name of the change fund custodian by filling out Section II of MPF Form 2 and submitting it to the Mayor's Financial Administration.

Management Response

Action Taken: The name of the change fund custodian has been updated with the Mayor's Financial Administration.

Finding # 3 – Accountability for some capital assets was not appropriately established.

Risk Level: Low

Recommendation

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

Management Response

The Library was unable to identify assets with incorrect locations. The assets listed on the AFIN report matched with the actual assets in the library. No discrepancy was found.

Findings # 4 - 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. Hardware upgrade is required to access secured application on Public Access Computers (PACs) within the library.

Finding # 5 - 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 South Jordan 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

Finding # 6 - 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 South Jordan 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 South Jordan 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 # 7 - 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 South Jordan Library Circulation Supervisor is primarily responsible for preparing the 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 supervisor assumes cashiering responsibilities as well as prepares deposits. Library believes that sufficient compensating controls are in place to mitigate any risks to public funds.

Finding # 8 - "No-sale" and "no money taken" transactions were not documented with an explanation.

Risk Level: Low

Recommendation

We recommend that "no-sale" and "no money taken" transactions be documented with an explanation as to why they were made.

Management Response:

Action Taken: Library staff is instructed to provide explanation on all "no-sale" and "no money taken" receipts.

Finding # 9 - Merchandise inventory was not tracked.

Risk Level: Moderate

Recommendation

We recommend that the South Jordan Library maintain detailed records of any merchandise inventory.

Management Response:

Action Taken: The Library is running a pilot program to test the Smart Money Manager (SMM), library's Point of Sale software to track merchandise inventory. The Library plans to have a systems-wide rollout of merchandise inventory tracking using SMM in February 2014.

Finding # 10 - 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 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. The Library is also working with the County Information Services to provide PCI Awareness Training to Library staff that handles credit card payments.

Finding # 11 – Internal 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.

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.
