

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



An Audit of the Key Controls of
West Valley Library

May 22, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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May 22, 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 West Valley Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of West Valley 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 West Valley Library and the cooperation from Cindy Smiley, Library Manager, Carolyn Fenstermaker, Circulation Desk Supervisor, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to West Valley 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
Cindy Smiley, Library Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of West Valley 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 West Valley 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 West Valley Library was released to the public in November 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."

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 - 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 West Valley 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 West Valley Library track and reconcile their merchandise inventory.

Finding # 5 - Internal controls over payments received through the mail were not adequate.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.1.5 states:

"Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

A previous audit conducted in 2013 found that internal controls over payments received in the mail were not adequate. A retest showed that internal controls continue to be inadequate. We observed that the same employees who received payments through the mail also processed the transactions.

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

Recommendation

We recommend that the duties of posting and receiving payments be separated.

Finding # 6 - Meal reimbursement forms were not signed by the Elected Official or Division/Department Director.

Risk Level: Low

Countywide Policy #1020, "County Meals," Section 6.1 states:

"All requests for payment (including reimbursements from petty cash accounts) shall be submitted with the attached form which contains: the date of the meeting; the location of the meeting; the type of meeting, whether a breakfast, lunch, or dinner; certification of the purpose of the meeting and the group attending in relation to County business; the total number of attendees, with employees separated from other attendees; the total payment amount requested; the signature of the person submitting the request; the date the request was signed; the signature of the Division or Department Director or Elected Official approving the request; the date approved by the official; and a copy of the bill or receipt."

Seven meal reimbursement forms were not signed by the Elected Official or Division/Department Director for meal purchases made with the West Valley Library purchasing card.

When reimbursement forms are not signed by the Elected Official or Division/Department Director, proper authorization for meal purchases cannot be verified.

Recommendation

We recommend that all Meal Reimbursement Forms be signed and dated by the Elected Official or Division/Department Director.

Finding # 7 - 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 West Valley Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

Additional Information

Background

The West Valley Library is located at 2880 West 3650 South in West Valley City. The library has served Salt Lake County residents since 1969 and was remodeled in 2004. The West Valley Library offers a variety of programs including story time for children, family movie night, book discussion groups for all ages, and other amenities including books, DVDs, music CDs, and audio books. The library also offers 26 computers with internet access and word processing capabilities, as well as high speed wireless access. The West Valley Library successfully accomplishes the mission of Salt Lake County Library services by making a positive difference in the lives of customers by responsively providing materials, information, and services at community libraries located throughout the Salt Lake Valley and/or via the Internet.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices
- 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.



HUMAN SERVICES
DEPARTMENT

"Making a positive
difference"

May 22, 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 West Valley Library

Dear Mr. Hawkins:

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

As reflected in our responses, we are committed to strengthening our
internal financial controls and reasonably implement 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 'James D. Cooper', is written over a printed name and title.

James D. Cooper
Director

JAMES D. COOPER
LIBRARY DIRECTOR
jimcooper@slcolibrary.org

**LIBRARY
ADMINISTRATION**

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**Salt Lake County West Valley 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 West Valley 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 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 – Merchandise inventory was not tracked.

Risk Level: Low

Recommendation:

We recommend that the West Valley 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 # 5 – Internal controls over payments received through the mail were not adequate.

Risk Level: Low

Recommendation:

We recommend that the duties of posting and receiving payments be separated.

Management Response:

We will instruct staff that mail should be opened in the presence of two persons and to include proof of credit to patron's account. The Library Management will be looking into the possibility of no longer accept checks.

Finding # 6 – Meal reimbursement forms were not signed by the Elected Official or Division/Department Director.

Risk Level: Low

Recommendation

We recommend that all Meal Reimbursement Forms be signed and dated by the Elected

Official or Division/Department Director.

Management Response:

All Meal Reimbursement Forms are sent to the Library Fiscal Manger who has been designated by the Library Director to approve all meal reimbursement requests. The Purchasing Card paperwork along with the Meals Reimbursement Form is sent to the Fiscal Manager after the close of the billing cycle. The Fiscal Manager then reviews and signs the forms. Beginning June 2014, purchasing card holders will be scanning purchasing card paperwork to Fiscal Staff for review and approval so required signatures would have already been obtained.

Finding # 7 – 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 Columbus 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 is expected to begin in June 2014
