

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
Holladay Library

November 19, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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November 19, 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 Holladay Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Holladay 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 Holladay Library and the cooperation from Steve Pierson, Jarred Anjewierden, Kathy McCullough, Heidi Tice, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Holladay 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 Todd Livingston
Deputy Auditor

cc: Jim Cooper, Library Services Director
Javaid Lal, Administrative and Fiscal Manager
Steve Pierson, Library Manager

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Holladay 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 Holladay Library has put into place several key controls for managing public funds. Most risks identified were minor and were not expected to result in material loss. Deficiencies in certain internal controls over cash handling, depositing, credit cards, and safeguarding personally identifiable information have a higher likelihood of leading to a loss of county property.

Findings and Recommendations

Finding # 1 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

The introduction of Countywide Policy #1062, "Management of Public Funds," 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. 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 that does not perform cashiering duties.

Finding # 2 - Personally Identifiable Information was unsecure during the online library card sign up process.

Risk Level: Moderate

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 on the Internet, the information is transmitted as plain text, unencrypted (non-SSL), and is not secured.

When personally identifiable information is not secured, there is an increased risk identity theft.

Recommendation

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

Finding # 3 - 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..."

Multiple cashiers used the same cash drawer throughout the day without establishing individual accountability.

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 # 4 - An MPF Form 7, "Fund Transfer Ledger," or similar 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."

An MPF Form 7, "Fund Transfer Ledger," or similar log was not used at the Holladay Library to record retrievals and returns of funds from the safe.

When accountability for funds is not documented, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the Holladay Library use MPF Form 7 "Fund Transfer Ledger," or similar log to record retrievals and returns of funds from the safe.

Finding # 5 - Merchandise inventory was not tracked.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," states in the Purpose:

"Salt Lake County procures a variety of property and equipment necessary for government operations, which must be properly managed -- meaning, controlled, inventoried and protected."

The Holladay Library did not track merchandise inventory. There was no record of inventory tracking, reconciling, or shrinkage.

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 Holladay Library track and reconcile their merchandise inventory.

Finding # 6 - Controls over checks received through the mail were not adequate.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.1.5 and 3.1.6 state:

"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. 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."

Employees posting cash receipts were the same as those collecting payments received by mail. Additionally, checks received by mail are not documented or recorded.

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 to oversee and review the process.

We recommend that checks received in the mail be opened and recorded on a log in the presence of two staff members.

Finding # 7 - An SAQ representing Library Services' compliance with PCI 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 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 Holladay Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Finding # 8 - The "Controlled Assets Inventory Form - Employee" was not used.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 4.3 and 4.3.1 states:

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures. Exhibit 3 - 'Controlled Assets Inventory Form - Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual."

The "Controlled Asset Inventory Form - Employee" was not used to manage controlled assets assigned to employees.

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

Recommendation

We recommend that a comprehensive controlled asset inventory using the "Controlled Asset Inventory Form - Employee" be performed annually, and that employees sign for assets under their control.

Finding # 9 - Cash Balance Sheets were not reviewed and signed by an independent supervising party.

Risk Level: Low

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."

The supervisors at the Holladay Library acted as cashiers and were involved in the cash handling process. Supervisory review of the Cash Balance Sheets were not supported with a proper segregation of duties.

Failing to segregate duties through a lack of independent supervisory review increases the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping.

Recommendation

We recommend that MPF Form 3A, "Cash Balance Sheet," or similar form be reviewed and signed by a supervisor not involved in the cash handling process.

Additional Information

Background

The Holladay Library is located at 2150 Murray Holladay Road in Holladay and has served Salt Lake County residents since 1972. The Holladay 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 16 computers with internet access and word processing capabilities, as well as high speed wireless access. The Holladay Library successfully accomplishes the mission of Salt Lake County Library services by making a positive difference in the lives of customers by responsibly 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 August 01, 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.



November 12, 2013

HUMAN SERVICES
DEPARTMENT
"Making a positive
difference"

Gregory P. Hawkins
Salt Lake County Auditor
2001 S. State Street- N3300
Salt Lake City, UT 84190

RE: Management Response to the Audit of the Key Controls of
Salt Lake County Holladay Library

Dear Mr. Hawkins:


This letter is in response to the audit report of Salt Lake County
Holladay Library. We'd like to thank Todd Livingston and 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.

JAMES D. COOPER
LIBRARY DIRECTOR
jimcooper@slcolibrary.org

Sincerely,

FOR:


James D. Cooper
Director

**LIBRARY
ADMINISTRATION**

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**Salt Lake County Holladay 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. Holladay 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 - 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 Holladay Library circulation supervisor and assistant circulation supervisor are primarily responsible for preparing deposits. Utmost effort is made to separate closing cashiers from opening responsibilities or preparing deposits. However, due to limited staffing resources and scheduling conflicts, it is imperative that the supervisors assume cashiering responsibilities as well as prepare deposits. Library believes that sufficient compensating controls are in place to mitigate any risks to public funds.

Finding # 2 - Personally Identifiable Information was unsecured 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 new Integrated Library System (ILS). The new system is designed to provide secure online library card sign up process. The new ILS will go live in December 2013.

Finding # 3 - 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 the low volume and low monetary value of transactions, Holladay 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 # 4 - An MPF Form 7, "Fund Transfer Ledger," or similar log was not used.

Risk Level: **Low**

Recommendation

We recommend that the Holladay Library use MPF Form 7 "Fund Transfer Ledger, or similar log to record retrievals and returns of funds from the safe.

Management Response:

The Holladay Library will create and sign a "Fund Transfer Ledger" to document movement of change fund to and from the safe to comply with Countywide Policy #1062, Sec. 2.7.3.

Finding # 5 - Merchandise inventory was not tracked.

Risk Level: **Moderate**

Recommendation

We recommend that Holladay 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. The Library plans to test and adopt First in, First-out (FIFO) inventory method once the new ILS is implemented

Finding # 6 - 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 to oversee and review the process. We recommend that checks received in the mail be opened and recorded on a log in the presence of two staff members.

Management Response:

Payment in the mail is a rare occurrence at Salt Lake County library branches. Library management will advise all Circulation Supervisors to read Countywide Policy # 1062 and create a check log to record payments in the mail.

Finding # 7 - An SAQ representing Library Services' compliance with PCI 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 the Holladay Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI 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 2013-14.

Finding # 8 - The "Controlled Assets Inventory Form - Employee" was not used.

Risk Level: **Low**

Recommendation

We recommend that a comprehensive controlled asset inventory using the "Controlled Asset Inventory Form - Employee" be performed annually, and that employees sign for assets under their control.

Management Response:

The majority of the Holladay Library computers and printers have a shared use, therefore, cannot be assigned to an individual employees. Library manager is ultimately responsible for custody of all assets. However, Library management will identify individually assigned assets and complete the "Controlled Assets Inventory Form-Employee" during our annual controlled assets inventory.

Finding # 9 - Cash balance sheets were not reviewed and signed by an independent party.

Risk Level: [Moderate](#)

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 Holladay Library has following compensating controls: 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 Holladay Library for verification purposes. Finally, 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.
