A REPORT

TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR

An Audit of the Key Controls of

Draper Library

June 12, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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June 12, 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 Draper Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Draper 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 Draper Library and the cooperation from Danette Hantla, Library Manager and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Draper 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
    April Townsend, Associate Director Finance & Operations
    Elizabeth Anguiano, Interim Administrative and Fiscal Manager
    Danette Hantla, Library Manager

Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Draper 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 Draper 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 over segregation of duties, cash receipting, and PCI Compliance have a higher likelihood of being a liability to the County. A report of the last audit of Draper Library was released to the public in October 2013.

Findings and Recommendations

Finding # 1 - 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."

A previous audit conducted in 2013 found employees that performed cashiering duties also prepared the daily deposit. A retest showed that in like manner 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 # 2 - 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 # 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 all transactions conducted on the point-of-sale system create an accurate receipting, recording, and accounting of public money.

Finding # 4 - Merchandise inventories were 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."

A previous audit conducted in 2013 found that the Draper 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 Draper Library track and reconcile their merchandise inventory.

Finding # 5 - 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 Draper Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

Finding # 6 - Deposits were not always made in a timely manner.

Risk Level: Low

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 no later than three days after receipt."

We found that 15 of the 30 deposits reviewed were deposited more than three days after receipt of collections.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that would otherwise be accrued.

Recommendation

We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

Action Taken: The Draper Library has recently changed its procedures to allow funds to be deposited on a daily basis.

Additional Information

Background

The Draper Library is located at 1136 East Pioneer Rd (124th South) in Draper. Built in 2005, the buildings unique architecture and xeriscaped landscape makes it an environmental friendly "green building". The Draper Library offers a variety of amenities, including books, DVDs, music CDs and audio books. The library also offers 25 computers with internet access and word processing capabilities, as well as high speed wireless access, a large meeting room, and a small conference room.

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 May 16, 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.

June 4, 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 Draper Library

Dear Mr. Hawkins:

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

James D. Cooper
Director

Salt Lake County Draper 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 Draper 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 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 # 2 - 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 # 3 - The cash drawer can be opened without an electronic record of the transaction.

Risk Level: Moderate

Recommendation
We recommend that all transactions conducted on the point-of-sale system create 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 inventories were not tracked.

Risk Level: Low

Recommendation:
We recommend that the Draper 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 – 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 Draper 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 will be completed by staff by the end of August 2014.

Finding # 6 – Deposits were not always made in a timely manner.

Risk Level: Low

Recommendation:
We recommend that funds be deposited on the same day, whenever practicable, but no later than three days after receipt.

Action Taken:
The Draper Library has recently changed its procedures to allow funds to be deposited on a daily basis.

Management Response: No finding