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May 22, 2018

Jim Cooper, Director
Salt Lake County Library Services
8030 South 1825 West
West Jordan, UT 84088

An Audit of Key Controls at the Whitmore Library Report Number 2018-MLR14

Dear Jim,

We recently completed an audit of key controls at Salt Lake County's Whitmore Library ("Whitmore"). The purpose of the audit was to examine financial records and business processes at Whitmore to determine if critical internal controls related to cash handling, capital and controlled asset management, and other public funds were properly implemented and functioning as intended to help reduce the risk of loss, theft, or misuse of county assets.

Our work was designed to provide reasonable, but not absolute assurance that the system of internal controls was adequate, records current, and daily transactions valid. Since our audit included only a sample of items from the period examined, there is a risk that we would not have discovered problems related to assets or transactions not specifically selected for review.

Audit criteria included Countywide Policies such as *Countywide Policy 1203, "Petty Cash and Other Imprest Funds," Countywide Policy 1062, "Management of Public Funds," Countywide Policy 1125, "Safeguarding Property/Assets," Countywide Policy 7035, "Purchasing Card Authorization and Use,"* and the Salt Lake County Library Services Division's internal policies and procedures.

By its nature, this report focuses on issues, exceptions, findings, and recommendations for improvement. The focus should not be understood to mean that we did not find various strengths and accomplishments. We truly appreciate the time and efforts of the employees of the Whitmore Library and Library Administration throughout the audit. Our work was made possible by their cooperation and prompt attention given to our requests.

Scope and Methodology

Our audit covered the period from January 1, 2017 to December 31, 2017. However, the period may have been adjusted to include any relevant information, records, or data from outside this period, as appropriate.

The audit included an examination of assets, records, and transactions in the following areas:

- Change Funds

- Cash Handling and Daily Deposits
- Capital and Controlled Assets
- Purchasing Card Transactions and Use

Audit Results

1.0 Change Funds

Audit Objectives:

- Determine if change funds are intact and maintained at the authorized amount.
- Determine if change funds are properly safeguarded against theft or misappropriation.
- Determine if change funds are managed in compliance with Countywide Policy.

Whitmore has an authorized change fund amount of \$244. This fund is used by cashiers at Whitmore to make change for customers and patrons. In addition, a portion of the change fund is kept within printing kiosks. Patrons pay into the kiosk for prints, and the machine provides change for any payment over the required amount. We performed a surprise count of the change fund that compared the total cash on hand, less the reported daily collections amount, to arrive at the remaining change fund balance. We found that the change fund was intact and maintained at the authorized amount.

We also interviewed the staff at Whitmore and reviewed change fund procedures with them. We physically observed that the change fund was properly safeguarded within either the cash registers or printing kiosks during operating hours, and within a locked safe at night. We examined that fund transfer documentation was completed by cashiers when moving the change funds to and from the safe. We also determined that the staff at Whitmore was knowledgeable of Countywide Policies and followed appropriate cash management procedures.

We noted no significant findings in the area of change funds.

2.0 Cash Handling and Daily Deposits

Audit Objectives:

- Determine if cash handling and depositing practices comply with Countywide Policy.
- Determine if daily cash collections and deposits are properly safeguarded against theft and misappropriation.
- Determine if there are adequate segregation of duties between cash handling and depositing business procedures.

Our audit examined cash handling and depositing procedures at Whitmore to determine if those procedures complied with Countywide Policies. We also examined whether daily collections were properly accounted for and adequately safeguarded against the risk of loss or theft. *Countywide Policy 1062, "Management of Public Funds,"* establishes procedures for receipting, recording, and depositing funds, and defines functions and responsibilities to establish and strengthen internal controls over these processes.

We observed cash receipting procedures at Whitmore and reviewed those procedures with staff members. We noted that cashiers were aware of Countywide Policies concerning the management of public funds, and we found that daily collections were properly safeguarded.

To determine if depositing procedures complied with Countywide Policies, we selected a sample of deposit dates to examine. The sample contained 30 days of deposit documentation that we analyzed to verify that amounts collected per the cash register transaction reports matched the amounts reported on cashiers' *Daily Cash Balance Sheets*. We also verified that the total amount of cash and check collections were deposited each day, and that deposits were made no later than three days after receipt in accordance with Countywide Policy and Utah state law.

We interviewed the staff at Whitmore and reviewed depositing procedures with them. We found that deposits were properly safeguarded and were made within three days after receipt. We found that printer kiosk reports and master balance sheets were not signed upon review. We examined a sample of no-sales reported by the point-of-sale ("POS") system. We found that some employees incorrectly entered transactions as no-sales rather than choosing a description. We also found that no-sales were not reviewed by management. Overall, we found that depositing procedures at Whitmore complied with Countywide Policy.

Our audit findings and recommendations in the area of cash handling and daily deposits are as follows:

Finding 2.1: Employees at Whitmore were not signing the printer kiosk report of collections as evidence that they had reviewed and verified the amount of funds.

During our audit, we reviewed the supporting documentation for daily deposits of collections. In addition to cash registers, Whitmore has printer kiosks where patrons can enter their payments into a machine, and do not pay a cashier. To determine collection amounts, the kiosk prints a collections report for the employee and automatically extracts the amount of funds listed on the report. Our examination showed that cashiers were not reviewing and signing the report of daily collections from the printer kiosks.

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

"If prepared manually on MPF Form 3A, or similar form, the cash balance sheet should be signed by the cashier for each cash register or location where cash is accepted. If a cashier is not required to balance their individual cash drawer, an MPF Form 7A, Fund Transfer Receipt, or similar form shall be completed to document the transfer of funds to the employee performing the balancing procedure."

Cashiers did not understand the need to, or did not prioritize, balancing collections from printer kiosks. When collections are not properly balanced and reviewed, the risk increases that funds will be misused or stolen. Deficient record keeping, accuracy and supervision all contribute to an increased likelihood of fund loss.

Recommendation 2.1:

We recommend that the cashiers at Whitmore review and sign-off on printer kiosk collections.

Finding 2.2: The deposit preparer and a second employee did not sign the master balance sheet as evidence that funds deposited were counted and verified.

We examined documentation for a sample of 30 bank deposits made from daily collections. In all 30 instances, we found that the *Daily Cash Collections Form*, or master balance sheet, was not signed by two employees, the deposit preparer and a second employee, as evidence that funds were verified prior to bank deposit. Occasionally, we found one signature.

Countywide Policy 1062, "Management of Public Funds," Section 4.2.2, states:

"The 'master' balance sheet shall be reviewed and reconciled to the bank deposit slip and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit."

Management did not understand the need or did not prioritize the review and signoff on daily deposit documentation. When collections are not properly reviewed, the risk increases that funds could be misused or stolen. Deficient record keeping, accuracy and verification all contribute to an increased likelihood of fund loss and a decrease in transparency.

Recommendation 2.2:

We recommend that both the deposit preparer and a second employee sign the "Daily Cash Collections Form," or master balance sheet, to establish accountability for funds recorded on the form and deposited in the bank.

Finding 2.3: Management at Whitmore did not review and sign for no-sale transactions created by cashiers.

We reviewed the supporting documentation for no-sale transactions. We reviewed 30 bank deposits made from daily collections, along with the no-sale transactions that occurred on those days. A no-sale occurs when the cash drawer is opened but no money is taken in. An example would be opening the cash drawer to make change for a customer. Our examination showed that management did not review and sign-off on no-sale transactions.

Countywide Policy 1062, "Management of Public Funds," Section 2.2.1, states,

"Cashiers are subject to administrative oversight of Cashier Supervisors designated by their respective County Agency Management."

Management did not understand the need or did not prioritize reviewing no-sale transactions. Standard business practice includes and addresses the efficacy of supervisor review and sign-off on no-sale transactions, even though Countywide policy does not specifically mandate this practice. When no-sale transactions are not properly documented and reviewed, there is an increased risk that funds could be misused or stolen. Deficient recordkeeping, accuracy and supervision all contribute to an increased likelihood of fund loss.

Recommendation 2.3:

We recommend that a supervisor review and sign-off on all no-sale transactions.

Finding 2.4: Employees at Whitmore incorrectly entered sales transactions as no-sales.

We reviewed the supporting documentation for no-sale transactions. Our examination showed instances where a charge was collected on the no-sale transaction. Three no-sale transactions had a charge or sales transaction attached, totaling about \$2. The point-of-sale system lists various categories, including no-sale, from which cashiers select when entering a transaction. Ordinarily, a no-sale would indicate opening the cash register drawer with no money taken in, but in this case, cashiers could record a sales transaction and accept money as a no-sale.

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 type of equipment used should be based on the daily volume of transactions."

The system did not have a validity check built in that would prevent a sales amount being entered under this category. Management was not aware of cashier system design flaws that allowed charges to post on a no-sale transaction or did not prioritize correction. When systems that are used to collect and track funds have operation flaws, there is an increased risk that County funds could be misused or stolen.

Recommendation 2.4:

We recommend that Library Services management look into the possibility of reprogramming the point-of-sale system to prevent a sale and receipt of money from being categorized as a no-sale transaction.

3.0 Capital and Controlled Assets

Audit Objectives:

- Determine if Capital and Controlled Assets are identified accurately, physically present, and accounted for properly.
- Determine if Capital and Controlled Assets are properly safeguarded against theft, loss, or misuse.
- Determine if Capital and Controlled Asset management practices comply with Countywide Policy.

Our audit included an examination of capital and controlled asset management at Whitmore. *Countywide Policy 1125, "Safeguarding Property/Assets,"* establishes the policies and procedures for the proper management of County capital (long-term) and controlled assets, including procedures for accounting for, protecting, and disposing of those assets.

Countywide Policy 1125, states that a capital asset is an item with an estimated life of more than one year and a cost equal to or greater than the capitalization rate, which currently is \$5,000. Capital assets are recorded in the County financial system and monitored by Mayor's Financial Administration, in addition to the agency where the asset is located. We found one capital asset in the County financial system assigned to Whitmore, a security gate that chimes if patrons leave without checking out their books at the circulation counter.

We reviewed a sample of 50 controlled assets, including 13 sets of computers and monitors. As opposed to a capital asset, *Countywide Policy 1125,* defines a controlled asset as an item of personal property having a cost of \$100 or greater, but less than the current capitalization rate. Due to their nature, controlled assets are more susceptible to theft, or conversion to personal use than capital assets.

The property manager has the responsibility to account for all controlled assets within the organization's operational and physical custody. *Countywide Policy 1125,* also defines an employee's duties and responsibilities when capital (long-term) or controlled assets are provided for use.

Our audit findings and recommendations in the area of capital and controlled assets are as follows:

Finding 3.1: Four items could not be located during our search for controlled assets.

During our audit, we searched for all 57 controlled assets from the controlled asset list. Four items could not be located. Table 1, below, shows the details of the controlled assets that could not be found on-site at Whitmore.

Table 1: List of Missing Controlled Assets at Whitmore

List of Missing Controlled Assets at Whitmore			
Tag No.	Description	Model	Location
31181043403097	VHS/DVD Player	Broksonic	Downstairs Office

31181066343857	Television	JVC	Downstairs Office
31181066316267	DVD Player	Sony	Librarians Office
31181085667476	Apple iPod	Apple	Staff Room

Despite certifying that the controlled assets were accounted for during a routine annual inventory in September 2017, these four controlled assets could not be found on-site, and Whitmore could not produce documentation that they had been disposed of or sent to surplus property.

Countywide Policy 1125, "Safeguarding Property/Assets," Section 2.2.3, states that part of a Property Manager's duties at each county agency are to:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody"

Over the course of several weeks during our audit, management could not locate these items or produce a Form PM-2 as evidence of sale or disposal. We noted that the Property Manager at Whitmore had checked off these four items on the controlled asset list during an annual controlled asset inventory that was conducted in September 2017. We determined that they were either removed from the premises since the inventory, or the property manager did not physically observe all items as stated.

Furthermore, *Countywide Policy 1125, Section 2.2.11*, states that the Property Manger should conduct an inventory of controlled assets at least annually, to "ensure complete accountability for all property owned by, or assigned to the organization." Verifying that controlled assets are properly accounted for through the annual controlled asset inventory is a key internal control intended to ensure that County organizations are properly safeguarding assets against loss through theft, misuse, or abuse. When County organizations do not ensure that protective internal controls are functioning as intended, then the risk that County assets could be lost, stolen, or converted to personal use increases.

Recommendation 3.1:

We recommend that the Property Manager at Whitmore document and report the four missing controlled assets in a formal letter to the Library System Director and remove them from the organization's controlled asset list.

Finding 3.2: Capital and controlled asset identification tags were missing or inaccurate.

During our audit, we physically verified that capital and controlled assets belonging to Whitmore each had an asset identification tag and that the tag number matched what was recorded on Whitmore's capital and controlled asset records. We found that four of the capital assets we located on-site did not have ID tags attached to them at all. These assets were the front security gate, a media sorter, sorter bins, and an RFID gate. We also found that five out of the 57 (or 9%) of the controlled assets in our sample, did not have ID tags either, including a ladder, paper shredder, CD player, soft drops and a

handtruck. In addition, asset ID tag numbers on three controlled assets did not match the tag numbers on Whitmore's controlled asset list. These included a digital camera, a computer, and the small rocking chairs located in the kids' reading section.

Countywide Policy 1125, "Safeguarding Property/Assets," Section 2.2.2, discusses the responsibility of property managers to maintain the asset listing:

"Accounting for all controlled assets within the organization's operation and/or physical custody in accordance with paragraph 4.0 of this policy."

Section 2.2.8, states:

"Coordinate with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established, and fixed assets are tagged and capitalized. Assist the Auditor's Office as requested in capitalizing fixed assets, etc."

When we presented this issue to management at Whitmore, we were told that the Property Manager had forgotten to update the asset ID tags. We noted that despite an annual capital and controlled asset inventory being conducted as recently as September 2017, the asset ID tag issues we identified had not been addressed or corrected by Whitmore management.

We agree that for some assets, like the security and RFID gates, it may be impractical or difficult to attach an asset ID tag to them. In situations like these, many County organizations have created file folders for those assets to keep ID tags, asset records, and even photographs of the items to ensure that all capital and controlled assets can be properly identified and accounted for.

Ensuring that capital and controlled assets are properly identified and that asset records are accurate is a critical internal control intended to reduce the risk that County property could be lost or stolen. Having incomplete or inaccurate capital and controlled asset records increases the risk that assets could be lost, stolen, or converted to personal use without being detected by the Property Manager or Whitmore management.

Recommendation 3.2:

- A. *We recommend that the Property Manager at Whitmore conduct a physical inventory of all capital and controlled assets, and that accurate asset ID tags are placed on all capital and controlled assets.*
- B. *We recommend that property tags be kept on file when they cannot be reasonably attached to capital assets.*

Finding 3.3: The Property Manager at Whitmore did not use the *Controlled Assets Inventory Form – Employee*, to establish individual accountability for controlled assets, as required by County policy.

During our audit, we found that management at Whitmore was not using the *Controlled Assets Inventory Form - Employee* to establish individual accountability for controlled assets that had been assigned to specific employees, as required by County policy.

Countywide Policy 1125, "Safeguarding Property/Assets," Section 4.3.1, states:

"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 Property Manager at Whitmore was not aware of the requirement to use the *Controlled Assets Inventory Form - Employee* in countywide policy to track controlled assets that had been assigned to specific employees. The *Controlled Assets Inventory Form – Employee* is a key internal control that helps ensure that county assets are properly safeguarded against theft or misuse. The forms establish personal responsibility for those assets that are used by and readily assignable to specific employees. Management at Whitmore should establish procedures for using the form and ensure that the forms are reviewed periodically.

Recommendation 3.3:

We recommend that the Property Manager at Whitmore establish standard procedures for using the Controlled Assets Inventory Form - Employee for all assets assigned to specific employees at Whitmore and ensure that the forms are reviewed and updated as needed.

4.0 Purchasing Card Transactions and Use

Audit Objectives:

- Determine if purchasing card transactions were appropriate and complied with Countywide Policies.
- Determine if purchasing cards are properly safeguarded against loss, theft, or misuse.
- Determine if purchasing card transactions were properly authorized and reviewed by management.

As part of our audit, we reviewed small cost purchases made by Whitmore employees on their county-issued purchasing cards ("p-cards"). *Countywide Policy 7035, "Purchasing Cards Authorization and Use,"* establishes guidelines and standards for the use and acquisition of p-cards, including how to obtain a card, how to use it, safeguards, allowable purchases, credit limits, record keeping and bank reconciliations, audits, and what to do if the card is lost or stolen.

We examined a sample of transactions made during 2017 and found that all had the status of "final approval" in the County's p-card transaction electronic approval system. We noted that during 2017 there were three authorized purchasing cardholders at Whitmore.

Jim Cooper, Director

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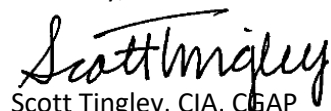
Whitmore does not require pre-approval for small cost items that are purchased using p-cards. At the close of the p-card billing cycle, management reviews each purchase and either approves it or requires the cardholder that made the purchase to provide additional information about the transaction. This is typical of most County organizations.

We noted no significant findings in the area of purchasing card transactions and use.

Conclusion

We appreciate the time spent by the staff at Whitmore in answering our questions, gathering the necessary documentation and records, and allowing us access to the library during our audit. The Whitmore staff was friendly, courteous, and very helpful throughout the audit process. We trust that implementation of these recommendations will provide for more efficient operations and better safeguarding of County assets. Please feel free to contact our office if you have any further questions.

Sincerely,



Scott Tingley, CIA, CFP

Salt Lake County Auditor

CC: Leslie Webster, Administrative and Fiscal Manager
Eleanor Nave, Library Manager

Attachment A: Agency Response

Attachment A
Agency Response

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Agency Response Whitmore Library

Finding 2.1 - Employees were not signing the printer kiosk report of collections as evidence of review and verification

RECOMMENDATION(S)	AGREE/ DISAGREE /PARTIAL AGREE	ACTION PLAN	TARGET DATE
<i>We recommend that the cashier review and sign-off on printer kiosk collections.</i>	Agree	We have implemented a form for review and sign-off.	May 1, 2018

Finding 2.2 - The deposit preparer and a second employee did not sign the master balance sheet as evidence that funds deposited were counted and verified.

RECOMMENDATION(S)	AGREE/ DISAGREE /PARTIAL AGREE	ACTION PLAN	TARGET DATE
<i>We recommend that both the deposit preparer and a second employee sign the "Daily Cash Collections Form," or master balance sheet, to establish accountability for funds recorded on the form and deposited in the bank.</i>	Partial Agree	There are a number of documents that make up the daily deposit packet. Our reviewer was signing the front page of the packet to show that the entire packet had been reviewed. The master balance sheet is one of the documents in the packet. We will make the master balance sheet the front page and have that signed.	May 1, 2018

Finding 2.3 – Management did not review and sign for no-sale transactions created by cashiers.

RECOMMENDATION(S)	AGREE/ DISAGREE /PARTIAL AGREE	ACTION PLAN	TARGET DATE
<i>We recommend that a supervisor review and sign-off on all no-sale transactions.</i>	Disagree	No-sale receipts are a part of the daily deposit packet. The supervisor reviews them and signs off on the entire packet.	May 1, 2018

Finding 2.4 – Employees incorrectly entered transactions as no-sales.

RECOMMENDATION(S)	AGREE/	ACTION PLAN	TARGET DATE
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	DISAGREE /PARTIAL AGREE		
<i>We recommend that management reprogram the point-of-sale system to prevent a sale and receipt of money from being categorized as a no-sale transaction.</i>	Partial Agree	We agree that this is something we would like but our vendor is not going to reprogram the system just for us. We have created a daily report that flags any no-sale transactions with dollar amounts attached so that they can be fixed and the employee can receive further training on categorizing sales.	May 1, 2018
Finding 3.1 – Four items could not be located during our search for controlled assets.			
RECOMMENDATION(S)	AGREE/ DISAGREE /PARTIAL AGREE	ACTION PLAN	TARGET DATE
<i>We recommend that the Property Manager document and report the four missing controlled assets in a formal letter to the Library System Director and remove them from the controlled asset list.</i>	Agree	We will prepare the letter.	May 31, 2018
Finding 3.2 – Capital and controlled asset tags were missing or inaccurate.			
RECOMMENDATION(S)	AGREE/ DISAGREE /PARTIAL AGREE	ACTION PLAN	TARGET DATE
<p>1) <i>We recommend that a physical inventory be conducted, and that accurate tags be placed on all capital and controlled assets.</i></p> <p>2) <i>We recommend that property tags be kept on file when they cannot be reasonably attached to capital assets.</i></p>	Agree	We will be conducting an inventory to make sure all tags are accurate. We will keep tags on file.	June 30, 2018
Finding 3.3 – The Property Manager did not use the “Controlled Assets Inventory Form – Employee” to establish individual accountability over controlled assets.			
RECOMMENDATION(S)	AGREE/	ACTION PLAN	TARGET

	DISAGREE /PARTIAL AGREE		DATE
<i>We recommend that the Property Manager use and have employees sign the "Controlled Assets Inventory Form – Employee" to establish individual accountability over assets.</i>	Agree	The branch manager signs off as the responsible party for all assets within the branch. We will make sure they are using the proper form going forward.	May 1, 2018