



A Report
to the
Citizens
of
Salt Lake
County,
the Mayor,
and the
County
Council

A Review of the

Salt Lake County Library Imprest Fund

December 2010

Jeff Hatch

Salt Lake County Auditor



February 10, 2011

Chairman Max Burdick & Council Members
Salt Lake County Council

Mayor Peter Corroon
Salt Lake County

HAND DELIVERED

RE: A Review of the Salt Lake County Library Imprest Fund

Dear Chairman Burdick & Mayor Corroon,

Transmitted with this letter is the above captioned review. On May 11, 2010, representatives from the Internal Audit Division met with the Salt Lake County Library Director and members of his staff to discuss an audit of the Library's administrative imprest checking account and petty cash fund. The meeting was requested by the Library's Associate Division Director after several issues were brought to his attention by a Library employee, who had been appointed as the imprest/petty cash account custodian (Fund Custodian), following the prior Fund Custodian's retirement in December 2009.

The new Fund Custodian identified several questionable transactions on the monthly bank statements, and expressed frustration over discrepancies between the imprest account balance in the Quicken check register and the bank statement balance. Among these discoveries were:

- Unexplained differences between certain bank deposit amounts when compared to the reimbursement checks issued by the Auditor at or around the same date. It appeared that deposits were less than the checks issued.
- Likewise, unexplained "customer" withdrawals of cash from the bank account. The prior Fund Custodian was the only "customer" on the account and County policy prohibits these withdrawals.
- Finally, it appeared that certain County reimbursement checks issued to the prior Fund Custodian had never been deposited into the imprest account.

As a result of these discoveries and prior to our audit, the Associate Division Director questioned the prior Fund Custodian about these discrepancies at an informal meeting. He characterized the discrepancies as the result of poor record keeping on his part, and a lack of understanding of the account reconciliation process in the Quicken check register. At the time, he assured the Associate Division Director that he was innocent of any wrongdoing and that he had not misused County funds in any way.

Through the use of data-mining software, we matched, compared, and analyzed thousands of transactions covering a seven-year period (2003 to 2010). These audit tests exposed an ongoing pattern of misuse of County funds by the prior Fund Custodian, with approximately \$10,000 from the imprest account remaining unaccounted for at the completion of the audit.

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In addition, our audit tests identified unresolved outstanding checks issued from the imprest account, totaling over \$10,000, which provided an excess balance or "cushion" which enabled the prior Fund Custodian to misappropriate funds without the imprest account becoming overdrawn. We concluded that the \$10,000 that remained unaccounted for and the \$10,000 cushion, provided by the outstanding checks, were not coincidental.

Our audit work culminated in an interview with the prior Fund Custodian on November 16, 2010. During the interview, with his legal counsel present, the prior Fund Custodian admitted to misappropriating County funds from the imprest account. The prior Fund Custodian stated that he was able to convert funds intended to reimburse the account to cash, which he then misappropriated for personal use.

He also admitted that he was unfamiliar with the County policy and State ordinance that govern the management of imprest accounts, and that he had never sought nor, to any meaningful degree, received supervisory oversight or training on his duties. For example the supervisor was not reviewing reimbursement requests containing erroneous reconciling numbers, yet signing them indicating that they were reviewed and approved. This was a significant contributing factor and provided an opportunity for the prior Fund Custodian to misappropriate County funds.

Finally, he asserted that he made attempts to pay back the funds he had misappropriated over the years, but that he was not aware that the total magnitude of funds was about \$42,000, or the \$10,000 still unaccounted for.

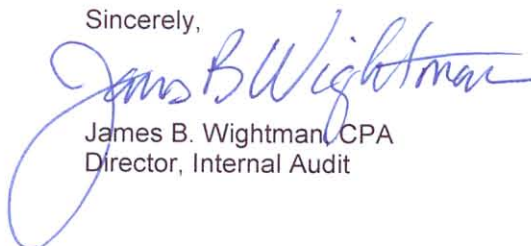
During our audit work, we collaborated with the District Attorney's Office. The facts established by our audit formed the basis for the filing of 3rd Degree felony charges on January 28, 2011.

The Library Director and his staff have been extremely helpful and have acted on the recommendations in our report. The Auditor's Office has taken action to discontinue issuing reimbursement checks (warrants) to fund custodians. Reimbursements are currently accomplished by electronic fund transfers (EFTs) directly to the bank account.

Unfortunately, cases of misappropriation and misuse of public funds cannot always be proactively discovered. We have performed regular and repeated audits of cash handling procedures at the various branch libraries, including imprest/petty cash funds. This particular Library administrative fund was not part of those audits. We formulate our audit schedule based on a Countywide risk assessment that includes 140 County agencies. Each agency has a multiplicity of performance and control issues that could be audited. With a limited staff, we attempt to focus our attention on the areas of highest risk.

If you have questions regarding this report, please contact us.

Sincerely,

A handwritten signature in blue ink that reads "James B. Wightman". The signature is fluid and cursive, with a large loop at the end of the last name.

James B. Wightman, CPA
Director, Internal Audit

A Review of the

**Salt Lake County
Library Imprest Fund**

December 2010

**JEFF HATCH
Salt Lake County Auditor**

**JAMES B. WIGHTMAN, CPA, CISA, MBA, MAcc
Director, Internal Audit**

Audit performed by:

**Cherylann J. Johnson, CIA, MBA
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I. Executive Summary

Background

On May 11, 2010, representatives from the Internal Audit Division met with the Salt Lake County Library System (Library) Division Director, Associate Division Director, and a Library Human Resources employee to discuss an audit of the Library's administrative imprest checking account (imprest account) and petty cash fund. The audit was requested by the Library's Associate Division Director after several issues were brought to his attention by the Library Human Resources employee, who had become the new imprest account custodian (Fund Custodian) after the prior custodian (Library Accountant), retired in December 2009.

Prior to his retirement in December 2009, the Library Accountant served as the Fund Custodian for both the Library's imprest account and petty cash fund. He held this position for approximately 11 years. The Library Human Resources employee agreed to take over custodial duties for both the imprest account and petty cash fund, having had some outside business experience and being familiar with the Quicken financial software used to record the Library's imprest account transactions.

At the outset, the new Fund Custodian identified several questionable transactions on the monthly bank statements, and expressed frustration over discrepancies between the imprest account balance in Quicken and the bank statement balance. At the meeting on May 11, 2010, Library management provided a list of account transactions taken from the bank statements during 2009 that highlighted differences between deposit amounts and County reimbursement warrant checks issued to bring the imprest account back to its authorized imprest amount. The list also detailed unexplained customer (cash) withdrawals from the account, identified on the bank statements, and County reimbursement warrant checks issued to the Library Accountant, but never deposited into the imprest account.

After the Library Accountant's retirement, the Associate Division Director questioned him about the imprest account discrepancies at an informal meeting. The Library Accountant characterized the discrepancies as the result of poor record keeping on his part, and a lack of understanding of the account reconciliation process in Quicken. At the time, he assured the Associate Division Director that he was innocent of any wrongdoing and that he had not misused County funds in any way.

Audit work began with obtaining imprest account records from numerous sources. Quicken check-register transactions were exported from the Library's working Quicken file for analysis and comparison. All available monthly bank statements were obtained from the bank where the imprest account was held. Records of County reimbursement warrant checks issued from the Auditor's Office Accounts Payable Section to replenish the account were obtained from the County's PageCenter digital archives. Actual Reimbursement Request Forms submitted to the Auditor's Office by the Library Accountant were obtained from County Archives.

Through the use of Audit Command Language (ACL) software, thousands of data records over a seven-year period were matched, compared, and analyzed. These audit tests exposed an ongoing pattern of misuse of County funds by the Library Accountant, with close to \$10,000 from the imprest account remaining unaccounted for at the completion of the audit. In addition, our audit tests identified outstanding checks issued from the imprest account, totaling

over \$10,000, which provided an excess balance or “cushion” that prevented the imprest account from becoming overdrawn. We concluded that the \$10,000 that remained unaccounted for and the \$10,000 cushion, provided by the outstanding checks, were not purely coincidental.

Without the cushion provided by the outstanding checks, the imprest account would have been overdrawn by the Library Accountant’s misappropriation. This analysis illustrates that the imprest account discrepancies were not the mere result of unintentional errors, but rather a deliberate attempt to conceal his actions from Library management.

The audit work culminated at an interview with the Library Accountant on November 16, 2010, with the intent to review the audit findings with him. During the interview, with his legal counsel present, the Library Accountant admitted to misappropriating County funds from the imprest account for personal expenses. The Library Accountant stated that he was able to convert funds to cash that were intended to reimburse the account. He was then able to misappropriate that cash for personal use. He also admitted during the interview that he made attempts to pay back the funds that he had taken over the years, but that he did not know the total magnitude of funds that he had misused or the total amount of funds still unaccounted for.

Audit findings were presented to representatives from the Salt Lake County District Attorney’s (District Attorney) Office on November 19, 2010. Further action from the District Attorney’s Office in this matter is still pending at the time of this report.

Findings and Analysis

The following are the primary findings of the audit:

Outstanding checks issued from the imprest account were never cancelled, voided, or turned over to the State Unclaimed Property Division (§1.1 of Report). Checks issued from the imprest account that were outstanding for more than one year were never cancelled, voided, or turned over to the State Unclaimed Property Division as required by Utah State Code. Our analysis identified 392 outstanding checks issued from the imprest account, totaling over \$10,000.

Copies of checks issued from the imprest account were submitted to the Auditor’s Office to replenish the account back to its authorized imprest amount. Because each of the outstanding checks was likely submitted for reimbursement in this process, the dollar amount of any outstanding checks should be reflected in the bank balance of the imprest account, since they were never cashed. However, the monthly bank statements we examined did not reflect this build-up of funds in the imprest account. Whether intentional or not, this build-up of excess funds in the imprest account provided an opportunity for the Library Accountant to divert County funds for personal use.

RECOMMENDATIONS:

- *Library management should ensure that the new Fund Custodian performs a monthly reconciliation with the bank statement, and that the reconciliation is reviewed thoroughly by the Fund Custodian's Supervisor, the Fiscal Manager, or another member of Library management.*
- *Library management should work to identify outstanding checks that have been issued from the imprest account that are more than one year old as part of the monthly reconciliation process.*
- *Once identified, Library management should take steps to properly submit a listing of these checks to the County Treasurer to be forwarded to the State Unclaimed Property Division, as required by Countywide Policy #1203.*

Adjusting entries were made in Quicken to alter the balance of the imprest account (§1.2 of Report). Over the audit period, numerous adjusting entries were made by the Library Accountant to adjust the Quicken balance of the imprest account. Accounting discrepancies between the Quicken balance and the actual bank account balance motivated the Library Accountant to make fictitious adjusting entries in an attempt to force the Quicken balance to approximate the bank statement balance.

RECOMMENDATIONS:

- *The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account.*
- *The Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies.*
- *Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor.*

Reimbursement warrant checks issued by the Auditor's Office were not always deposited for the full amount of the warrant (§3.1 of Report). Our analysis exposed a pattern of shorting imprest account deposits by not depositing the full amount of the County reimbursement warrant check into the imprest account. To "replace" what had been shorted from the reimbursement warrant check amounts, the Library Accountant made extra deposits into the account. At the time of our analysis, the Library Accountant had fallen approximately \$3,400 short of making compensating deposits into the imprest account.

RECOMMENDATION:

The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with actual bank deposits to ensure that the full amount of each reimbursement warrant check is deposited. This step would be in addition to a thorough review of the monthly reconciliation of the imprest account check register with the bank account statement.

ACTION TAKEN:

The Auditor's Office has discontinued the practice of issuing warrant checks to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library's imprest account.

Some reimbursement warrant checks were never deposited into the imprest account. Further analysis showed that these reimbursement warrant checks had been cashed by the Library Accountant (§3.2 of Report). Our audit work identified numerous County reimbursement warrant checks which had no corresponding bank deposit into the imprest account. To determine if these warrant checks had cleared the bank, we obtained the cancelled check image for each warrant, and discovered that some had never been deposited into the imprest account. These warrant checks were cashed by the Library Accountant instead. At the time of our analysis, there was approximately \$3,700 in reimbursement warrant checks that should have been deposited into the Library's imprest account that could not be accounted for on the bank statements.

RECOMMENDATION:

The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with the bank deposits to ensure that all fund reimbursement warrant checks are deposited. This step would be in addition to a thorough review of the monthly reconciliation with the bank statement.

ACTION TAKEN:

The Auditor's Office has discontinued the practice of issuing warrant checks to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly to the bank.

Numerous cash withdrawals were taken out of the imprest account and not recorded in Quicken (§4.1 of Report). Cash withdrawals that were detailed on the bank statements were not accounted for in Quicken. The imprest account was established in the Library Accountant's name as required by Countywide policy. Thus, the Library Accountant was the imprest account's sole "customer." Comparing these cash withdrawal transactions on the bank

statements with Quicken records, we determined that the Library Accountant had taken cash withdrawals from the imprest account that totaled over \$2,500. None of the cash withdrawals we discovered were entered into the Quicken check register, therefore bringing into question the purpose for the withdrawals. Without any evidence showing that the withdrawals were for legitimate Library Petty Cash expenditures, it was clear that the Library Accountant misappropriated cash directly from the imprest account.

RECOMMENDATIONS:

- ***The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund. Going forward, the new Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies.***
- ***Library Management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor.***

The audit findings reflect conditions created by a control environment without proper segregation of duties, coupled with an inappropriately high level of trust in the Library Accountant's integrity and ability to perform his duties with little supervisory oversight. This lack of segregation of duties and supervisory oversight created an opportunity for the Library Accountant to misappropriate County funds over at least a seven-year period. In addition, the lack of supervisory oversight allowed the Library Accountant to sporadically "replace" some of the missing funds without being detected.

Certain accounting and bookkeeping control measures are designed to cross-reference each other for accuracy and to verify business transactions. Proper segregation of duties is an important internal control over the imprest fund operations in any organization. If the same person is responsible for multiple duties, the system of checks and balances that segregation of duties provides is compromised. Throughout the audit, we observed a general lack of fiscal-management focus and supervisory oversight over the Library's imprest account operations. Internal controls designed to provide checks and balances over the imprest account were disregarded by Library management, or not enforced by the Library Accountant's Supervisor.

During a presentation of the audit findings to Library management, the Library Accountant's Supervisor stated that he "trusted [the Library Accountant] to do his job." However, trust should not override proper segregation of duties. Separate, independent verification of the accuracy and validity of business transactions is required. In our opinion, had Library management created a stronger control environment, following established Countywide policies, and implemented proper segregation of duties over imprest account operations, the Library Accountant would not have been able to misappropriate County funds or carry on his activities for as long as he did.

II. Introduction

The Library maintains an imprest account and separate petty cash fund to pay small routine operating expenses incurred by Library employees. The scope of Countywide Policy #1203, *Petty Cash and Other Imprest Funds*, allows County agencies to establish imprest checking accounts for purposes where,

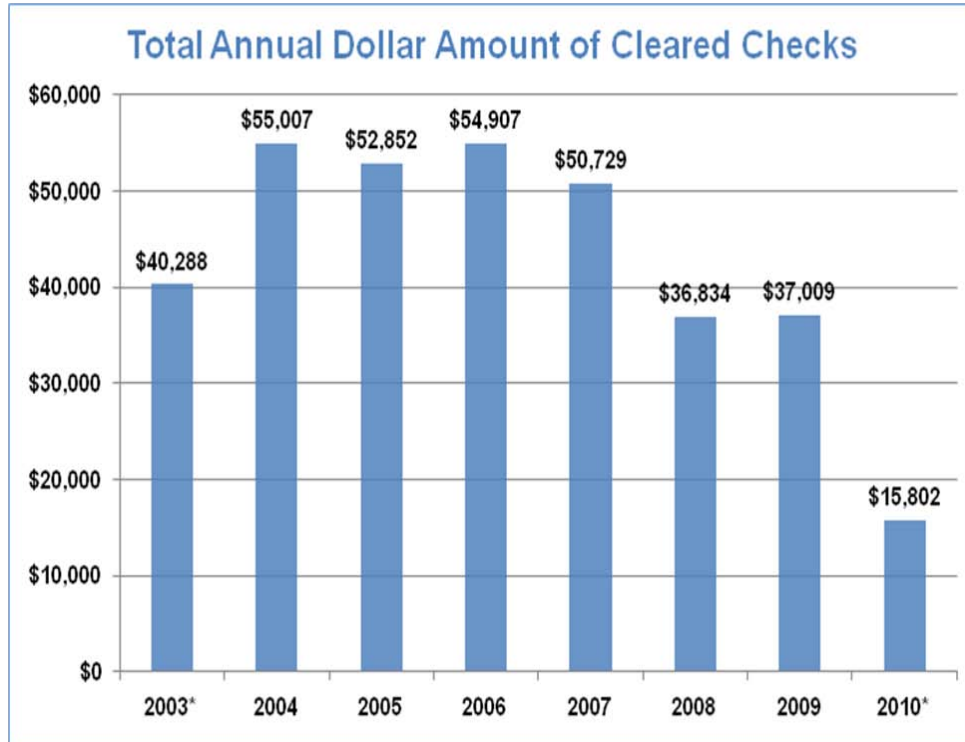
“Due to the nature of certain operations, it is deemed to be cost effective or otherwise expedient to process disbursements by means of such an account, rather than by issuance of individual general warrants.”

One of the purposes for establishing the Library’s imprest account was to refund Library fines and fees to patrons. Refund checks are issued from the imprest account to patrons who have paid fines or fees that were later waived or dismissed by Library management. For example, a Library patron could have paid for missing items that had been misplaced or lost, but later found and returned to the Library. A check from the imprest account would be issued to the patron to refund the fine paid for the missing item.

The imprest checking account was used for both patron refunds and for petty cash reimbursements to employees.

The Library’s use of an imprest account for this purpose fits within the scope of Countywide Policy #1203, because the issuance of a County general warrant each time that a Library fine or fee is waived, as in the example above, would not be cost effective. In addition to issuing patron refunds from the imprest account, the Library Accountant also used the account to reimburse Library employees for petty-cash-type operating expenses. Checks were primarily issued to reimburse Library employees who did not work at the Library’s administrative offices located at the Whitmore Library branch. However, we did find some instances where Library administration employees and Whitmore Library employees were reimbursed from the imprest account.

The account was quite active during the time that the Library Accountant was the Fund Custodian. In a typical month, approximately 100 checks were issued from the account to refund patron fines and fees and to reimburse Library employees for various operating expenses. From April 2003 to April 2010, the average monthly total dollar amount of checks issued from the account that cleared the bank was \$4,240 per month. Figure 1, on page 8, shows the total annual dollar amount of the checks issued from the imprest account that cleared the bank from 2003 to 2010. Cleared check information was obtained from the monthly bank statements.

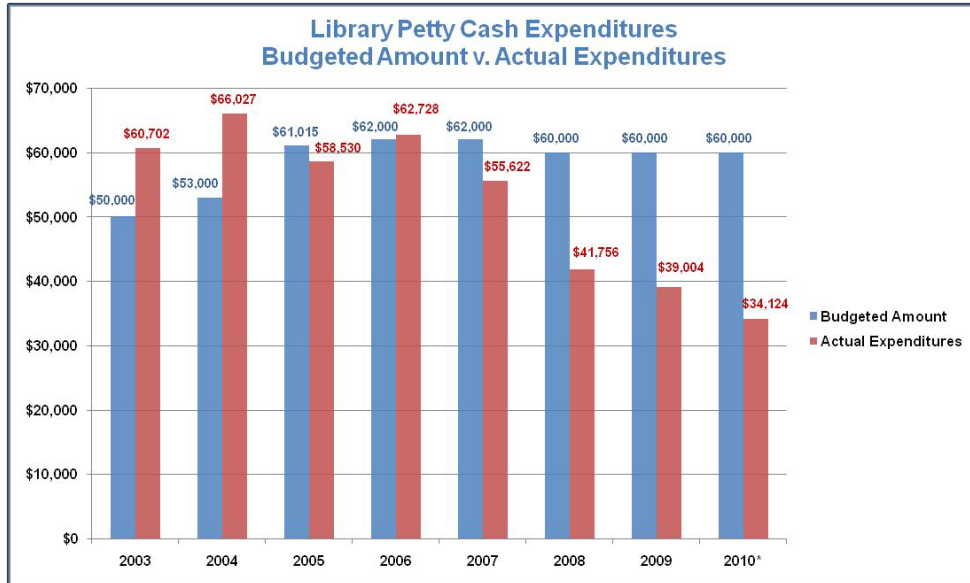


*Full year data was not available for 2003 and 2010

Figure 1. Total annual dollar amount of checks issued from the Library's imprest account that cleared the bank from 2003 to 2010.

The Library's Petty Cash expenditures budget amount for the last three years has been \$60,000. Actual annual expenditures have declined steadily since 2007, and in 2009 were only \$39,004 (65% of the budgeted amount). One possible explanation for the decrease in Petty Cash expenditures is the increased use of purchasing cards by Library employees, instead of requesting reimbursement out of Library imprest funds.

It is notable that actual Library Petty Cash expenditures surpassed the budgeted amount in 2003, 2004, and 2006. In 2004, actual expenditures were 125% of the budgeted amount. Figure 2, on page 9, shows the comparison between the annual budgeted amount for Petty Cash expenditures and actual expenditures for 2003 through 2010. The Library's Petty Cash expenditures budget amounts and actual Petty Cash expenditures information was obtained from the Detail Listing of Obligations v. Budget reports from the County's Advantage Financial System (AFIN).



*Full year data was not available for 2003 and 2010

Figure 2. Comparison of annual Library Petty Cash budgeted amount to actual expenditures from January 1, 2003 to November 30, 2010.

Countywide Policy #1203, Section 5.1.3, requires that Petty Cash and Other Imprest Funds be reconciled prior to the Fund Custodian preparing a Reimbursement Request Form to replenish the fund. In the case of imprest checking/operating accounts,

“The account’s bank statement balance shall be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian.”

The Fund Custodian is directly responsible for maintaining the integrity of the imprest fund balance and the operation of the imprest account. Through our analysis, we determined that the Library Accountant would typically submit a Reimbursement Request Form to the Auditor’s Office twice a month to replenish the imprest account back to its authorized imprest amount. The Library Accountant would submit copies of checks issued from the account since the last request, and any supporting documentation (invoices, receipts, etc.) along with a form similar to the County’s MPF Form 6, *Request for Reimbursement and Control Listing*, signed by both the Library Accountant and the Accountant’s Supervisor. A copy of MPF Form 6 is attached as Appendix A.

At the time of the audit, the authorized amount of the imprest account was \$3,600, and the authorized amount of the petty cash fund was \$750. Even though the authorized amount of the imprest account was only \$3,600, from April 2003 to May 2010, the Library’s Quicken records indicated that \$352,019 in checks was issued from the account, thereby highlighting the active nature of the account.

III. Scope and Objectives

Due to restrictions on the availability of certain records and data required for our audit work, the audit timeframe covered from April 1, 2003 to May 19, 2010. Although some of the audit work included examining records outside of this date range, the major portion of analysis work was limited to this time period. Any exceptions will be noted in this report.

Key areas of analysis:

- Monthly imprest account bank statements from April 2003 to May 2010.
- Library's imprest account Quicken records from April 2003 to May 2010.
- Reimbursement warrant checks issued from the Auditor's Office to replenish the account from April 2003 to May 2010.
- Reimbursement Request Forms prepared and submitted by the Fund Custodian from December 2006 to May 2010.

Audit Objectives

The principal objectives of the audit were to:

- Identify discrepancies between the Library's Quicken records and the monthly bank statement transactions and balances.
- Determine if internal controls over the Library's imprest account were implemented by Library management. Assess whether those internal controls were adequate and functioning properly.
- Review the Library's imprest account reimbursement process to determine if internal controls over the process were adequate and functioning properly.
- Consult with Library management to implement an appropriate method to account for checks issued from the imprest account that were never cashed or deposited by the payee (outstanding checks).
- Make recommendations to Library management that will strengthen internal controls, add value to operations, and help the Library accomplish its objectives.

IV. Summary of Findings and Recommendations

#	Findings	Recommendations	Reference Page
1.0	Bank and Quicken Comparison		17
1.1	Outstanding checks issued from the imprest account were never cancelled, voided, or turned over to the State Unclaimed Property Division.	<ul style="list-style-type: none"> Library management should ensure that the new Fund Custodian is performing a monthly reconciliation with the bank statement, and that the reconciliation is reviewed thoroughly by the Fund Custodian's Supervisor, the Fiscal Manager, or another member of Library management. Library management should work to identify outstanding checks that have been issued from the imprest account that are more than one year old as part of the monthly reconciliation process. Once identified, Library management should take steps to properly submit these checks to the County Treasurer to be forwarded to the State Unclaimed Property Division, as required by Countywide Policy #1203. 	17
1.2	Adjusting entries were made in Quicken to alter the balance of the imprest account.	<ul style="list-style-type: none"> The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account. The Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies. Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. 	21

#	Findings	Recommendations	Reference Page
2.0	Reimbursement Warrants and Quicken Comparison		23
2.1	The total amount of Quicken deposit entries did not match the total amount of reimbursement warrant checks issued by the Auditor's Office.	<ul style="list-style-type: none"> • The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account. • The Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies. • Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. 	23
3.0	Reimbursement Warrants and Bank Statement Comparisons		24
3.1	Reimbursement warrant checks issued by the Auditor's Office were not always deposited for the full amount of the warrant.	<p>The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with actual bank deposits to ensure that the full amount of each reimbursement warrant check is deposited. This step would be in addition to a thorough review of the monthly reconciliation of the imprest account check register with the bank account statement.</p> <p>ACTION TAKEN:</p> <p>The Auditor's Office has discontinued the practice of issuing warrant checks to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library's imprest account.</p>	25
3.2	Some reimbursement warrant checks were never deposited into the imprest account. Further analysis showed that these reimbursement warrant checks had been cashed by the Library Accountant.	<p>The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with the bank deposits to ensure that all fund reimbursement warrant checks are deposited. This step would be in addition to a thorough review of the monthly reconciliation with the bank statement.</p> <p>ACTION TAKEN:</p> <p>The Auditor's Office has discontinued the practice of issuing warrant checks to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library imprest account.</p>	27

#	Findings	Recommendations	Reference Page
3.3	Deposits were made into the imprest account that had no matching reimbursement warrant check issued by the Auditor's Office. The source of these deposits could not be determined.	<ul style="list-style-type: none"> • The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund. • The new Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies. • Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. 	29
4.0	Other Withdrawals		31
4.1	Numerous cash withdrawals were taken out of the imprest account and not recorded in Quicken.	<ul style="list-style-type: none"> • The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund. • The new Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies. • Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. 	31
4.2	Bank service charges and other account maintenance fees were never included in the total amount submitted for reimbursement when the Library Accountant prepared a reimbursement request.	<ul style="list-style-type: none"> • The new Fund Custodian should include all bank service charges and operating expenses as account expenditures when preparing a Reimbursement Request Form to replenish the imprest account. • The Fund Custodian's Supervisor should ensure that these account charges are recorded accurately and included on all reimbursement requests submitted to the County Auditor. 	32

V. Findings and Analysis

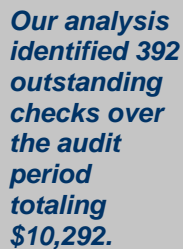
Findings and analysis have been divided into four sections:

- Bank Statements and Quicken Comparison
- Reimbursement Warrants and Quicken Comparison
- Reimbursement Warrants and Bank Statements Comparison
- Other Withdrawals

1.0 Bank Statements and Quicken Comparison

- ***Outstanding checks issued from the imprest account were never cancelled, voided, or turned over to the State Unclaimed Property Division.***
- ***Adjusting entries were made in Quicken to alter the balance of the imprest account.***

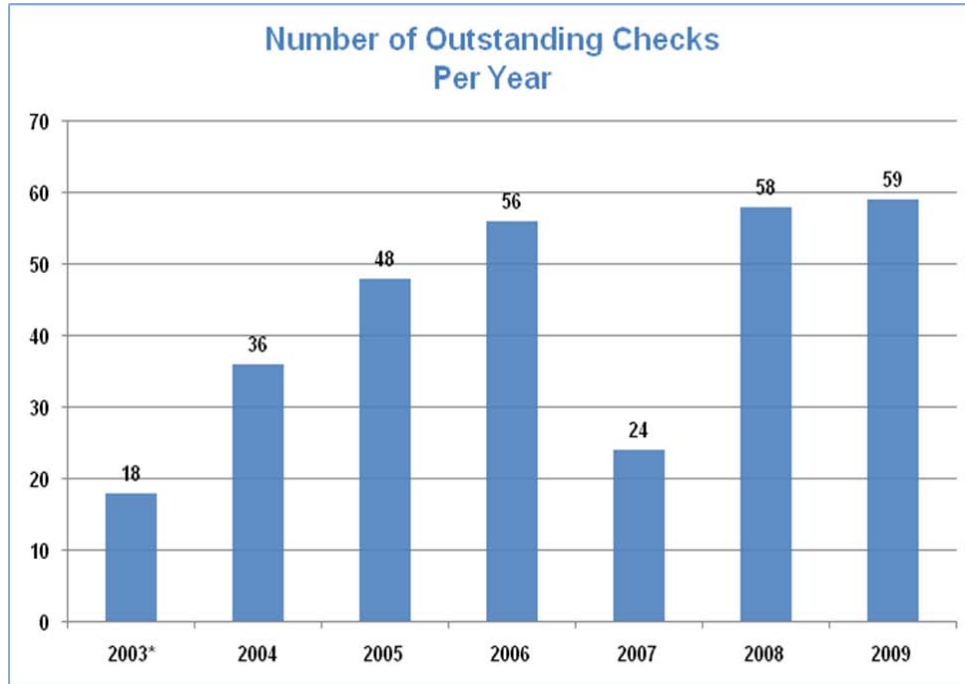
1.1 Outstanding checks issued from the imprest account were never cancelled, voided, or turned over to the State Unclaimed Property Division.



Our analysis identified 392 outstanding checks over the audit period totaling \$10,292.

Checks issued from the Library's imprest account outstanding for more than one year were never cancelled, voided, or turned over to the Utah State Treasurer's Unclaimed Property Division as required by Utah State Code. Our analysis identified 392 outstanding checks dated from April 1, 2003 to May 19, 2010, that totaled \$10,292.

Figure 3, on page 18, shows the total number of outstanding checks issued from the Library's imprest account per year from April 1, 2003 to December 31, 2009.



* 2003 data includes from April 1, 2003 to December 31, 2003 only.

Figure 3. Number of outstanding checks identified per year. Checks outstanding for more than a year should be turned over to the State Unclaimed Property Division.

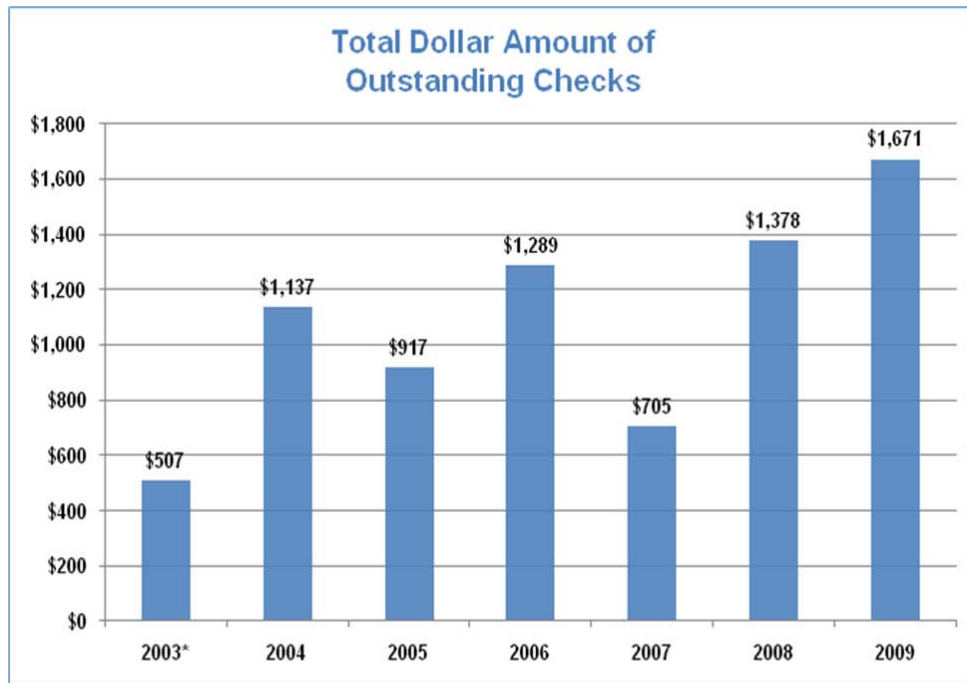
Utah State Code, Title 67, Chapter 4a, *Unclaimed Property Act*, requires that outstanding checks issued from any governmental account must be turned over to the Utah State Treasurer's Unclaimed Property Division, if they have not been cashed, cancelled, or otherwise voided after one year. Countywide Policy #1203, Section 5.1.4, recognizes the need to account for and remedy outstanding or stale-dated checks that have been issued from a County imprest account. The policy states:

"Copies of Stale-Dated Checks issued from an Imprest Checking/Operating Account, shall be submitted by the Custodian to the [County] Treasurer's Office. In addition, a copy of the MPF Form 6 documenting the original reimbursement detail shall be attached. A check issued by the Custodian for the total of the Stale-Dated Checks shall be included with the above documentation for submission by the [County] Treasurer to the Utah State Unclaimed Property Division."

Using ACL software, we matched checks that had been issued from the imprest account to checks that had cleared the bank listed on the monthly bank statements from April 1, 2003 to May 19, 2010. Quicken records indicated that 8,270 checks had been issued from the account over the audit period. Any outstanding checks would have been identified through a monthly account reconciliation process. Countywide Policy #1203, Section 5.1.3, states:

“In the case of Imprest Checking/Operating Accounts, the account’s bank statement balance shall be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian.”

Figure 4, below, shows the total dollar amount of outstanding checks per year from April 1, 2003 to December 31, 2009.



* 2003 data includes from April 1, 2003 to December 31, 2003 only.

Figure 4. Total annual dollar amount of outstanding checks issued from the Library’s imprest account.

Quicken software, which was used by the Library Accountant to record imprest account transactions, includes a tool that allows the user to perform account reconciliations. Outstanding items remain outstanding until they are marked as cleared from the bank statement. When the reconciliation tool is run, if the account balance does not match the bank statement balance after adjusting for any outstanding items, then a complete reconciliation is not possible. Quicken asks that the user identify the source of any discrepancies to correct the problem, or enter an adjusting entry to force an account reconciliation. Adjusting entries are easily identified in the check register function within Quicken, and would appear on any reconciliation reports that the Library Accountant would have produced for Library management.

The Library Accountant did not accurately or consistently reconcile the imprest account to identify outstanding checks, and the Accountant’s Supervisor did not require the Library Accountant to provide documentation that the account had been reconciled prior to signing the

Library's Request for Reimbursement Form. Countywide Policy #1203, Section 5.1.1, requires that:

“Prior to submission of a reimbursement request from the Custodian to the Auditor's Office, the applicable Petty Cash or other Imprest Fund Account shall be reconciled by the Custodian. The reconciliation, documented on MPF Form 6, ‘Reimbursement Request and Control Listing,’ or similar form, shall reflect the actual count of Petty Cash on hand, or the Checking Account balance at the date of reconciliation, attested by the reconciling employee's signature.”

Furthermore, Section 5.1.1, states:

“The reconciliation shall be reviewed and signed by the Fiscal Manager or Agency Management.”

This situation was caused by a lack of proper segregation of duties over the account reconciliation and reimbursement request processes. In addition, the Library Accountant's Supervisor failed to provide adequate oversight by not assigning the monthly bank account reconciliation to another employee. In the absence of sufficient staffing, the Supervisor should have insured that the Library Accountant performed the reconciliation, with the Supervisor performing an independent review.

The Library Accountant's Supervisor or another Library employee should have performed the monthly bank reconciliation.

The reviewer should have documented the review and approved the reconciliation by signing and dating the Reimbursement Request Form. This way, if there were any questions over a certain transaction, the ownership of each step in the reconciliation process could have been identified. Ideally, for complete segregation of duties, the Library Accountant's Supervisor or another Library employee should have performed the monthly bank reconciliation.

Our audit disclosed that the Reimbursement Request Forms were signed and dated by the Library Accountant's Supervisor. However, we found no evidence that the Library Accountant's Supervisor made any inquiries regarding the preparation of bank account reconciliations during the period of our audit.

Copies of checks issued from the imprest account, including those never cashed, were submitted to the Auditor's Office as part of a reimbursement request, to replenish the account back to its authorized imprest amount. Because each of the outstanding checks was submitted for reimbursement in this process, the dollar amount of any unresolved outstanding checks should have been reflected in an ever-increasing bank account balance, since they were never cashed.

However, the monthly bank statements we examined did not reflect this build-up of funds in the imprest account. Therefore, we concluded that

this potential build-up of excess funds in the imprest account provided the opportunity and means for the Library Accountant to divert County funds for his personal use, and keep the bank account balance more in line with the authorized imprest amount of \$3,600.

Since outstanding checks issued from the Library's imprest account were not properly accounted for or cancelled after remaining outstanding for more than one year, the Library could be liable to the State Treasurer's Unclaimed Property Division for the full amount of these unclaimed checks under provisions of the Utah State Code. In addition, follow-up work by Library employees on each of the outstanding checks identified could be a significant drain on Library resources.

RECOMMENDATIONS:

- ***Library management should ensure that the new Fund Custodian is performing a monthly reconciliation with the bank statement, and that the reconciliation is reviewed thoroughly by the Fund Custodian's Supervisor, the Fiscal Manager, or another member of Library management.***
- ***Library management should work to identify outstanding checks that have been issued from the imprest account that are more than one year old as part of the monthly reconciliation process.***
- ***Once identified, Library management should take steps to properly submit these checks to the County Treasurer to be forwarded to the State Unclaimed Property Division, as required by Countywide Policy #1203.***

1.2 Adjusting entries were made in Quicken to alter the balance of the imprest account.

From April 1, 2003 to April 30, 2010, a total of 62 adjusting entries were made to alter the imprest account Quicken check-register balance. There were 21 positive adjustments totaling \$28,460, and 41 negative

The Library Accountant made adjusting entries to force the Quicken balance to match the bank balance.

adjustments totaling \$28,557. Furthermore, the Library Accountant created a new account in Quicken each year to record accounting entries for the current year. The new account was created in Quicken with an adjusting entry that approximated the bank statement balance, thereby concealing any account discrepancies from the previous year.

Accounting discrepancies between the Quicken and actual bank balance required the Library Accountant to make additional adjusting entries to force the Quicken balance to approximate the bank balance. Over the audit period, there were eight positive adjusting entries, greater than \$1,000 each, that increased the account balance with the largest single positive adjusting entry being \$4,997. There were nine

negative adjusting entries of more than \$1,000 each that decreased the account balance, with the largest single negative entry being \$4,661.

Fund Custodians are held directly responsible for their authorized imprest funds. They are also held personally liable for maintaining the authorized imprest amount, and for operating the fund in compliance with Countywide Policy #1203. The Fund Custodian should operate the imprest fund under the close oversight of the Custodian's Supervisor.

Countywide Policy #1203, Section 5.3.1, states:

"The operations and reconciliation of an Imprest Fund shall be reviewed by the Custodian's immediate supervisor, the Fiscal Manager, or someone designated by Agency Management."

Furthermore, Section 5.3.2, states:

"Each MPF Form 6, 'Reimbursement Request and Control Listing,' shall be signed by the Custodian, and shall be reviewed and signed by Agency Management, the Fiscal Manager, or their designee. The Custodian and reviewer's signatures on the form indicate that the Imprest Fund has been reconciled and disbursements properly accounted for prior to submission to the Auditor's Office."

We observed a general disregard for segregation of duties over the Library's imprest account operations, and no apparent review of imprest account reconciliations by the Library Accountant's Supervisor. This resulted in an environment where the Library Accountant was able to manipulate the Quicken balance of the imprest account through repeated, fictitious adjusting entries. In addition, by creating a new account in Quicken each year, the Library Accountant was able to conceal the fact that there were almost 400 outstanding checks issued from the account, totaling over \$10,000.

RECOMMENDATIONS:

- ***The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account.***
- ***The Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies.***
- ***Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor.***

2.0 Reimbursement Warrants and Quicken Comparisons

2.1 The total amount of Quicken deposit entries did not match the total amount of reimbursement warrant checks issued by the Auditor's Office.

Over the audit period there were 257 County reimbursement warrant checks issued to the Library Accountant to replenish the imprest account, totaling \$348,641. Operations of the fund would require the Library Accountant to accurately record deposit transactions into the Quicken check register to account for these reimbursements. We compared actual reimbursement warrant checks issued from the Auditor's Office to the Quicken deposit entries. The Quicken records showed only 236 deposit entries that totaled \$345,026, which was \$3,615 less than the total amount of reimbursement warrant checks issued.

Additionally, our analysis disclosed that there were 20 deposit entries recorded in the Quicken check register, which were less than the corresponding warrant check issued. We also noted that there were 12 deposit entries in the Quicken check register that were greater than the warrant issued, and 19 deposit entries which consisted of more than one reimbursement warrant check combined into a single deposit entry. Discrepancies between actual bank deposits and Quicken deposit entries indicate that the Library Accountant intentionally manipulated the account balance.

Discrepancies between actual bank deposits and Quicken deposit entries indicate that the Library Accountant intentionally manipulated the account balance.

The imprest account was replenished by issuance of a County general warrant check to the Library Accountant after a Reimbursement Request Form was prepared and submitted to the Auditor's Office. The amount of the reimbursement warrant should have sufficiently replenished the imprest account back to its authorized imprest amount after accounting for: 1) all imprest account expenditures for that period, 2) any unreimbursed bank charges or fees, and 3) the unexpended imprest account balance. These elements should equal and reconcile to the authorized imprest amount, \$3,600.

To properly prepare Reimbursement Request Forms to replenish the account, the Library Accountant would need to keep accurate records of all account transactions, including all reimbursement deposits. In this case, the Library Accountant intentionally entered inaccurate deposit records in Quicken.

Countywide Policy #1203, Section 5.1.1, states:

“Prior to submission of a reimbursement request ... the ... Imprest Fund Account shall be reconciled by the Custodian. The reconciliation... shall reflect the actual... Checking Account balance at the date of reconciliation, attested by the reconciling employee's signature. These balances, plus the total of the outstanding... Imprest/Operating Account checks, should equal the authorized imprest amount. The reconciliation shall be reviewed and signed by the Fiscal Manager or Agency Management.”

Differences between Quicken deposit entries and imprest account reimbursements indicate that the Quicken entries were made to intentionally distort the check register balance of the imprest account, and conceal the cushion of about \$10,000 created by the outstanding checks. Had the Library Accountant's Supervisor performed a thorough review of account reconciliations, any discrepancies between Quicken deposit entries and actual reimbursement amounts would have been discovered.

RECOMMENDATIONS:

- ***The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account.***
- ***The Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies.***
- ***Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor.***

3.0 Reimbursement Warrants and Bank Statement Comparison

- ***Reimbursement warrant checks issued by the Auditor's Office were not always deposited for the full amount of the warrant.***
- ***Some reimbursement warrant checks were never deposited into the imprest account. Further analysis showed these reimbursement warrant checks had been cashed by the Library Accountant.***
- ***Deposits were made into the imprest account that had no matching reimbursement warrant check issued by the Auditor's Office. The source of these deposits could not be determined.***

3.1 Reimbursement warrant checks issued by the Auditor's Office were not always deposited for the full amount of the warrant.

During our analysis, we were able to obtain monthly imprest account bank statements back to April 2003 from the bank where the account was held. Statement copies were scanned into PDF file format and then statement data was exported into Excel for further review and analysis. Several types of comparisons between actual bank statement transactions, reimbursement warrant checks, and Quicken records were possible using a data mining and analysis tool, Audit Command Language (ACL) software. The analysis included comparing data sets with thousands of individual records from different data sources. For example, the Quicken-produced check data set included over 11,170 individual records for analysis. ACL also made it possible to review 100% of the data population, rather than a representative statistical sample.

Comparing Total Reimbursement Warrants Issued to Total Bank Deposits Made. During the audit period, there were 257 reimbursement warrant checks issued to replenish the Library's imprest account, totaling \$348,641. Total bank deposits made during the period amounted to \$345,172, which was \$3,468 less than total reimbursement warrants issued.

Matching Individual Bank Deposits to Warrant Checks Issued. We checked for another discrepancy by matching actual bank-statement deposits with the date and amount of reimbursement warrant checks. We determined that 33 reimbursement warrant checks, totaling \$41,934, had no matching bank deposit. In contrast, there were 36 bank deposits, totaling \$38,720, over the period that did not match any reimbursement amount.

Examining Warrant Checks Not Deposited in Full. Additionally, we analyzed warrant check deposits that were "shorted," where the amount deposited was less than the total warrant check issued close to the same date. Table 1, on page 26, shows actual bank deposits that were less than the reimbursement warrant checks issued from April 1, 2003 to April 30, 2010.

SHORTED DEPOSIT LIST									
Reimbursement Warrants				Bank Deposits					Net Difference
Warrant Date	Warrant ID	Warrant No.	Warrant Amount	MM	DD	YYYY	Bank Ref No.	Deposit Amount	
9/6/2005	PVLI05163G21	950769	\$1,586.65	9	12	2005	4231572081	\$1,198.25	\$388.40
9/12/2005	PVLI05163G22	951133	2,372.42	9	15	2005	4135462482	2,137.86	234.56
9/22/2005	PVLI05163G24	952294	1,667.20	9	27	2005	3435718232	1,387.34	279.86
11/7/2005	PVLI05163G32	956503	2,463.33	11	10	2005	3635111848	2,068.28	395.05
12/14/2005	PVLI05163G36	960060	2,190.92	12	22	2005	3736399705	1,990.92	200.00
12/27/2005	PVLI05163G38	961214	1,236.52	12	30	2005	3334311212	1,136.52	100.00
6/28/2006	PVLI06163G21	979891	847.39	7	26	2006	3438122380	847.38	0.01
7/21/2006	PVLI06163G23	984072	1,288.91	7	27	2006	3530732679	1,088.91	200.00
3/13/2007	PVLI07155G07	1009192	826.20	3	16	2007	3130909654	614.24	211.96
4/3/2007	PVLI07155G11	1011538	1,178.23	4	9	2007	3335454222	816.62	361.61
4/16/2007	PVLI07155G12	1012806	1,310.25	4	18	2007	4138553212	1,116.86	193.39
5/18/2007	PVLI07155G17	1015693	1,154.84	5	29	2007	4134749359	753.77	401.07
10/17/2007	PVLI07155G34	1030380	1,923.61	10	18	2007	3531817503	1,623.61	300.00
11/8/2007	PVLI07155G37	1032590	1,479.73	11	9	2007	3836875718	1,279.73	200.00
6/5/2008	PVLI08155G15	1055832	1,126.37	6	9	2008	4232301672	757.61	368.76
8/13/2008	PVLI08155G24	1062641	1,041.98	8	14	2008	3832161905	750.90	291.08
8/29/2008	PVLI08155G25	1064207	957.36	9	3	2008	3835871209	721.80	235.56
11/10/2008	PVLI08155G34	1070809	762.97	11	12	2008	3731440747	512.20	250.77
11/24/2008	PVLI08155G36	1075351	823.78	12	1	2008	3331727835	665.88	157.90
2/19/2009	PVLI09155G03	1082987	1,200.34	2	23	2009	3831945665	1,030.34	170.00
3/26/2009	PVLI09155G08	1086283	1,052.11	3	30	2009	3531869856	859.37	192.74
4/17/2009	PVLI09155G10	1088049	1,010.88	4	21	2009	3630757385	800.88	210.00
Total Warrants			\$29,501.99	Total Deposits			\$24,159.27	\$5,342.72	

Table 1. Listing of bank deposits that were less than the reimbursement warrant check amount from April 1, 2003 to May 19, 2010. The column on the right shows the net difference of the deposit shortage.

Table 1, above, identifies 22 bank deposits that were less than the corresponding reimbursement warrant checks. We also discovered that, in an effort to replace these misappropriations, the Library Accountant had periodically made his own deposits into the imprest account. During our interview with the Library Accountant on November 16, 2010, he admitted that he attempted to “pay back” some of the funds that he had misappropriated from the imprest account, but that he had not kept accurate records of the amounts that he had misused. He simply tried to make extra deposits into the account based on his memory of what he had shorted from earlier deposits. At the time of our analysis, the total net difference between reimbursement warrant checks issued and shorted deposit amounts was \$5,343.

Again, imprest fund custodians are directly responsible for the management and operation of their funds. They are accountable for and may be held liable for maintaining the authorized imprest amount, and for operating the fund in compliance with Countywide Policy #1203. As previously stated, the fund custodian should be closely supervised. Agency management has a responsibility under Countywide Policy #1203 to provide adequate segregation of duties over fund activities or to compensate for lack of staff by closer oversight. Likewise, they should

consistently and regularly, at least monthly, review imprest fund operations and reconciliations.

The lack of supervisory oversight of the Library's imprest account operations made it possible for the Library Accountant to siphon off funds by not depositing the full amount of certain reimbursement warrant checks into the imprest account. Reimbursement warrant checks were issued in the name of the Library Accountant, consistent with Countywide Policy #1203. However, since the Supervisor did not segregate duties or consistently enforce and review account reconciliations, as a mitigating internal control, the Library Accountant was able to deposit only a portion of at least 22 different reimbursement warrant checks, along with the other methods he employed to misappropriate public funds as described in this section of the report.

RECOMMENDATION:

The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with actual bank deposits to ensure that the full amount of each reimbursement warrant check is deposited. This step would be in addition to a thorough review of the monthly reconciliation of the imprest account check register with the bank account statement.

ACTION TAKEN:

The Auditor's Office has discontinued the practice of issuing warrant checks to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library's imprest account.

3.2 Some reimbursement warrant checks were never deposited into the imprest account. Further analysis showed these reimbursement warrant checks had been cashed by the Library Accountant.

We identified six reimbursement warrant checks from April 1, 2003 to April 30, 2010, which could not be matched with a bank deposit at all. To confirm that these warrant checks had not been deposited into the imprest account, we obtained check images for each of the six warrant checks from the Accounts Payable Section of the Auditor's Office. By viewing the cancelled check images, we were able to confirm that each warrant check had cleared the County's General Warrant Account as indicated by the bank stamp on the back of the check.

However, each of these reimbursement warrant checks had a different clearing number than the Library's imprest checking account number on the bank stamp appearing on the back of the check. A bank representative confirmed that this "unique" clearing number indicated that

the reimbursement warrant check had been part of a teller-initiated transaction in which the check was cashed instead of being deposited into the imprest account. The six warrant checks which appear to have been cashed by the Library Accountant amounted to \$3,717. Table 2, below, lists the six reimbursement warrant checks that were never deposited into the imprest account.

Warrants Not Deposited List			
Warrant Date	Warrant ID	Warrant No.	Warrant Amount
2/27/2007	PVLI07155G05	1008030	\$451.57
7/3/2007	PVLI07155G22	1019827	585.69
4/2/2008	PVLI08155G08	1050133	652.66
7/1/2008	PVLI08155G18	1057921	893.67
10/22/2008	PVLI08155G32	1069268	456.36
4/22/2009	PVLI09155G11	1088472	676.72
Total Warrants Not Deposited			\$3,716.67

Table 2. Listing of reimbursement warrant checks issued to replenish the Library's imprest account that were never deposited.

Once again, the lack of oversight made it possible for the Library Accountant to feel emboldened to cash some reimbursement warrant checks for personal use, instead of depositing them into the imprest account.

We reviewed actual Reimbursement Request Forms submitted by the Library Accountant, obtained from County Archives. All of the requests we examined were signed by the Library Accountant and the Accountant's Supervisor or a designee, attesting that a proper review had been performed prior to submitting the requests. However, during our interview with the Library Accountant on November 16, 2010, he admitted that there was never a thorough review of the account reconciliations. His awareness of the lack of supervisory oversight over the imprest account operations may have provided him with the opportunity to take funds from the account without fear of being caught by Library management.

RECOMMENDATION:

The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with the bank deposits to ensure that all fund reimbursement warrant checks are deposited. This step would be in addition to a thorough review of the monthly reconciliation with the bank statement.

ACTION TAKEN:

The Auditor's Office has discontinued the practice of issuing warrant checks to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library's imprest account.

- 3.3 Deposits were made into the imprest account that had no matching reimbursement warrant check issued by the Auditor's Office. The source of these deposits could not be determined.**

Our analysis, comparing bank statement deposits to reimbursement warrant checks, revealed 13 bank deposits from April 1, 2003 to April 30, 2010, that did not match any reimbursement warrant check issued by the Auditor's Office. Four of the deposits could be matched with a reimbursement warrant check based on the date of the check, but the deposit total listed on the bank statement was more than the warrant check amount.

Thus, it became clear that the Library Accountant periodically made deposits into the Library's imprest account to offset the funds he had misappropriated as previously described. The source of the funds deposited into the imprest account could not be determined. Over the audit period, a total of \$5,591 was deposited into the account in this manner. Table 3, on page 30, lists the questionable deposits that were discovered, and the lack of a corresponding reimbursement warrant check in all but four instances.

QUESTIONABLE DEPOSITS LIST									
Reimbursement Warrants Issued				Bank Deposits					Net Difference
Warrant Date	Warrant ID	Warrant No.	Warrant Amount	MM	DD	YYYY	Bank Ref No.	Deposit Amount	
2/11/2004	PVLI04074G01	891330	\$2,169.62	2	17	2004	4731880532	\$2,209.62	\$40.00
				10	27	2005	4238052398	50.00	50.00
1/11/2006	PVLI05163G39	962787	2,146.59	1	20	2006	3330147292	2,472.02	325.43
3/29/2006	PVLI06163G06	970938	1,752.94	4	3	2006	3736254154	2,689.78	936.84
8/29/2006	PVLI06163G29	987552	2,198.48	9	5	2006	3634483342	2,398.48	200.00
				4	3	2007	3334599725	29.10	29.10
				2	19	2008	3436014015	1,100.00	1,100.00
				12	19	2008	3435459239	300.00	300.00
				4	30	2009	3536569658	150.00	150.00
				5	4	2009	3437249285	150.00	150.00
				5	28	2009	3735894210	1,249.46	1,249.46
				11	30	2009	3638144844	360.00	360.00
				12	10	2009	3537228958	700.23	700.23
Total Warrants			\$8,267.63	Total Deposits			\$13,858.69	\$5,591.06	

Table 3. Listing of deposits that the Library Accountant made that were not part of a reimbursement warrant check.

Countywide Policy #1203, Section 5.2, *Imprest Fund Discrepancies*, states:

“No deposits, other than the reimbursement from the Auditor, shall be mingled or stored in a Petty Cash or other Imprest Fund Account, unless the Custodian obtains prior written approval from the Auditor.”

As repeatedly observed, poor supervisory oversight of the Library's imprest account operations made it possible for the Library Accountant to make these unauthorized deposits into the account. When we questioned the Library Accountant about these deposits at our meeting on November 16, 2010, he stated that he made efforts to pay back the funds that he had misappropriated. Without a thorough review of account reconciliations by his Supervisor, he presumed that any deposits into the account that were not part of a reimbursement request would not be discovered or questioned.

RECOMMENDATIONS:

- ***The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund.***
- ***The new Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies.***
- ***Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor.***

4.0 Other Withdrawals

- ***Numerous cash withdrawals were taken out of the imprest account and not recorded in Quicken.***
- ***Bank service charges and other account maintenance fees were never included in the total amount submitted for reimbursement when the Library Accountant prepared a reimbursement request.***

4.1 Numerous cash withdrawals were taken out of the imprest account and not recorded in Quicken.

Through our analysis of monthly bank statement transactions, we discovered that there were numerous cash withdrawals listed on the statements. From this review, it became apparent that these were arbitrary cash withdrawals from the imprest account.

Charges recorded in Quicken only included monthly bank service charges deducted from the account each month, and other infrequent charges for check stock and Quicken software upgrades. However, there were no records to support that the cash withdrawals from the imprest account had been made for authorized expenses. In addition, the Library Accountant never included these charges in his Reimbursement Requests submitted to the Auditor's Office. This is discussed further in Section 4.2 below.

During the audit period, we found 15 separate cash withdrawals from the account totaling \$2,528. Without proper documentation to support these withdrawals, their legitimacy and appropriateness should have been questioned by the Library Accountant's Supervisor. Once again, if the Library Accountant's Supervisor had required him to reconcile the imprest account on a monthly basis, and reviewed the monthly bank

reconciliations, these unexplained cash withdrawals would have been discovered.

This lack of a strong internal control enabled the Library Accountant to make cash withdrawals directly from the imprest account without being detected. A total of \$2,528 was withdrawn from the account without any record of its purpose.

RECOMMENDATIONS:

- ***The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund.***
- ***The new Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies.***
- ***Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor.***

4.2 Bank service charges and other account maintenance fees were never included in the total amount submitted for reimbursement when the Library Accountant prepared a reimbursement request.

Our review of imprest account operations included examining Reimbursement Request Forms prepared by the Library Accountant to replenish the account back to its authorized imprest amount of \$3,600. We obtained all the Reimbursement Requests submitted by the Library Accountant to the Auditor's Office back to December 4, 2006, from County Archives. All reimbursement requests prior to December 2006 had been destroyed in accordance with County records retention policy.

As previously pointed out, monthly bank service charges, along with infrequent charges for check stock, and Quicken software upgrades, were deducted from the Library's imprest account. We observed that the Library Accountant had accurately and consistently entered these charges into Quicken when they appeared on the bank statements.

The Library Accountant was aware of bank charges that appeared on the bank statement, but never requested reimbursement for them.

The Library Accountant did not include monthly bank service charges or operating expenses on any of the 50 reimbursement requests we examined. We identified a total of \$3,804 in charges and fees on the bank statements. Since these charges were never reimbursed by the County Auditor, the Library's imprest account should be underfunded by at least \$3,800. However, the monthly bank statements we examined indicated that the account was adequately funded over the audit period. The reason that the account did not become overdrawn is due in large part to over \$10,000 in outstanding checks that

had not been turned over to the State Unclaimed Property Division, providing a build-up of excess funds in the account.

Logically, these account charges would decrease the imprest account balance, and therefore should have been included as account expenditures when the Library Accountant prepared a reimbursement request. Instead, the Library Accountant prepared a Reimbursement Request Form by simply subtracting the total amount of checks issued since the last request from the authorized imprest amount (\$3,600). He then entered that difference as the *Cash on Hand* amount on the Reimbursement Request Form. Essentially, the Library Accountant was “plugging” the *Cash on Hand* amount rather than using the reconciled Quicken check-register balance at that point in time.

The *Cash on Hand* amount recorded on MPF Form 6, *Reimbursement Request and Control Listing*, should correspond and reconcile to the Quicken check-register balance. By fictitiously deriving the *Cash on Hand* figure through subtracting the total amount of checks issued from the authorized imprest amount, and not reconciling to the actual Quicken check register balance, the Library Accountant was able to conceal these discrepancies. If the Library Accountant’s Supervisor had performed a review of imprest account reconciliations as required by Countywide Policy #1203, these discrepancies, like the others cited, would have been easily detected.

RECOMMENDATIONS:

- ***The new Fund Custodian should include all bank service charges and operating expenses as account expenditures when preparing a Reimbursement Request Form to replenish the imprest account.***
- ***The Fund Custodian’s Supervisor should ensure that these account charges are recorded accurately and included on all reimbursement requests submitted to the County Auditor.***

VI. Conclusion

Through our audit work, we exposed an ongoing pattern of misappropriation of County funds by the Library Accountant in the conduct of his fiduciary duties as Fund Custodian over the Library’s imprest account. At our meeting with the Library Accountant and his attorney on November 16, 2010, he admitted taking County funds intended to reimburse the imprest account.

Although the Library Accountant stated that he was unsure of the total amount of County funds that he misappropriated, or for how long these activities were carried out, we were able to determine that there were 33

separate reimbursement warrant checks over a seven-year period that had no matching bank deposit. With each of these 33 warrant checks, the Library Accountant either deposited only a portion of the check into the imprest account, or cashed the entire check instead. The gross total of these reimbursement warrant checks was \$41,934.

The Library Accountant also stated that he did not intend to keep the money that he had taken. He admitted that in order to make up for the shortage of funds in the imprest account, he would make extra deposits into the account. Although the Library Accountant stated that he used his own personal funds to “pay back” what he had taken, we could not determine the source of the extra deposits through our audit tests.

Over the audit period, the net difference between reimbursement warrant checks issued and actual bank deposits made was \$3,468. Thus, despite the Library Accountant’s efforts to make up for his misappropriations, the imprest account remained \$3,468 short.

Our audit work identified reimbursement warrant checks that were never deposited into the Library’s imprest account.

Our audit work also identified reimbursement warrant checks that were never deposited into the Library’s imprest account. We discovered six reimbursement warrant checks over the audit period that could not be matched to an actual bank deposit. Further analysis confirmed that the Library Accountant had simply cashed these checks. The total amount of the six warrant checks which the Library Accountant cashed was \$3,717.

Through his duties as Fund Custodian, the Library Accountant had signatory rights over the checking account. Because he was one of the signors on the account, he was able to take cash withdrawals directly out of the account. Our audit work identified numerous cash withdrawals of this type, totaling \$2,528. This brings the total amount of County funds still unaccounted for over the audit period to \$9,713.

Figure 5, on page 35, shows the total funds that could not be accounted for, broken down by amount and type.

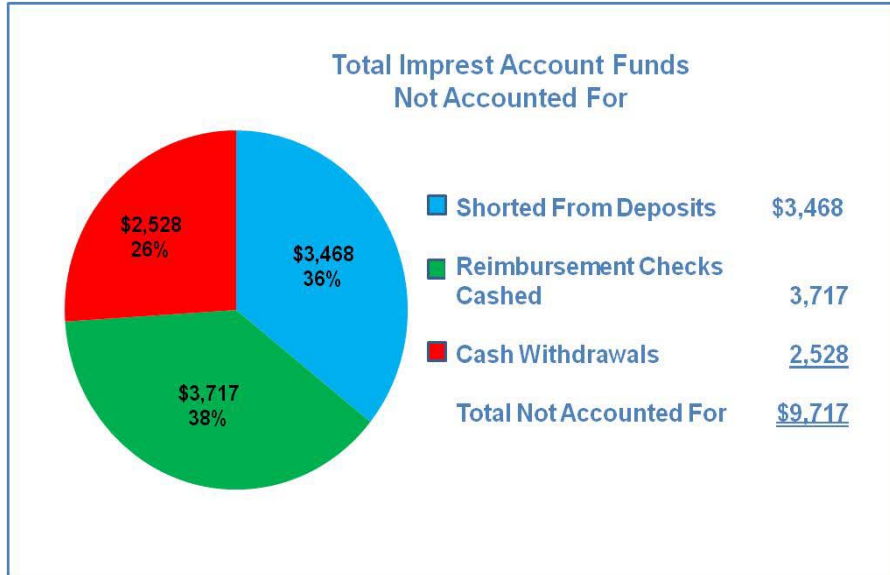


Figure 5. Total Library imprest account funds that could not be accounted for broken down by amount and type.

Without the cushion provided by the outstanding checks, totaling \$10,292, the imprest account would have been overdrawn by the Library Accountant's misappropriation of \$9,717, as summarized in Figure 5, above. This comparison illustrates that the imprest account discrepancies were not the mere result of unintentional errors, but a deliberate attempt to conceal his actions from Library management.

As a result of our audit and the interview conducted with the Library Accountant on November 16, 2010, during which the Library Accountant admitted to the misuse of public funds, the matter was referred to the County District Attorney for review of the facts and applicable law as a basis for appropriate legal action.

PETTY CASH AND OTHER IMPREST FUNDS REIMBURSEMENT REQUEST AND CONTROL LISTING

SECTION I - IDENTIFICATION OF AGENCY

AGENCY NAME: _____ DATE: _____
AGENCY DIRECTOR: _____ PHONE NUMBER: _____
FUND: _____ DEPT/AGENCY: _____ UNIT/ORG: _____ OBJECT CODE: _____
ADDRESS: _____

SECTION II - AMOUNT OF CURRENT REQUEST

Total Reimbursement on this Request \$ _____
Cash on Hand (on Checkbook Balance, if applicable) + \$ _____
Outstanding Vouchers (not included on this request) + \$ _____
Other (i.e. interest, voids, bank fees) + or - \$ _____ Describe: _____
Fund Balance of Imprest Account = \$ _____

SIGNED _____ (Date)
Custodian
SIGNED _____ (Date)
Agency Fiscal Manager
SIGNED _____ (Date)
Agency Director/Designee
SIGNED _____ (Date)
Auditor's Office

We certify that we have examined the documentation supporting the expenditures comprising this Reimbursement Request, and that the amount has already been expended for purposes authorized for this Petty Cash or Other Imprest Fund.

SECTION III - CONTROLLED LISTING

Policy #1203 Reference 4.7.1

Table with 5 columns: Voucher #, Date, Vendor, Received by, Amount. Multiple empty rows for data entry.

(Controlled Listing continued on Page 2)

RESPONSE FROM LIBRARY MANAGEMENT

LIBRARY IMPREST FUND	
RECOMMENDATIONS	CURRENT STATUS
1. The Library should ensure that the new Fund Custodian is performing a monthly reconciliation with the bank statement, and that the reconciliation is reviewed thoroughly by the Fund Custodian's Supervisor, the Fiscal Manager, or another member of Library management. (Audit Report Page 17)	The Library agrees and has implemented this recommendation
2. The Library should work to identify outstanding checks that have been issued from the imprest account that are more than one year old as part of the monthly reconciliation process. (Audit Report Page 17)	The Library agrees and has implemented this recommendation
3. Once identified, Library management should take steps to properly submit these checks to the County Treasurer to be forwarded to the State Unclaimed Property Division, as required by Countywide Policy #1203. (Audit Report Page 17)	The Library agrees and has implemented this recommendation
4. The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account. (Audit Report Page 21)	The Library agrees and has implemented this recommendation
5. The Fund Custodian's supervisor should provide adequate oversight and properly investigate any fund discrepancies. (Audit Report Page 21)	The Library agrees and has implemented this recommendation

RESPONSE FROM LIBRARY MANAGEMENT

LIBRARY IMPREST FUND	
RECOMMENDATIONS	CURRENT STATUS
6. Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. (Audit Report Page 21)	The Library agrees and has implemented this recommendation
7. The new Fund Custodian must be held directly responsible for maintaining the integrity of the authorized imprest amount and operations of the imprest account. (Audit Report Page 23)	The Library agrees and has implemented this recommendation
8. The Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies. (Audit Report Page 23)	The Library agrees and has implemented this recommendation
9. Library management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. (Audit Report Page 23)	The Library agrees and has implemented this recommendation
10. The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with actual bank deposits to ensure that the full amount of each reimbursement warrant check is deposited. This step would be in addition to a thorough review of the monthly reconciliation of the imprest account check register with the bank account statement. (Audit Report Page 25)	<p>ACTION TAKEN: The Auditor's Office has discontinued the practice of issuing County warrants to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library's imprest account.</p> <p>The Library agrees and has implemented this recommendation</p>

RESPONSE FROM LIBRARY MANAGEMENT

LIBRARY IMPREST FUND	
RECOMMENDATIONS	CURRENT STATUS
<p>11. The new Fund Custodian's Supervisor should review reimbursement requests prepared by the Custodian and compare those amounts with the bank deposits to ensure that all fund reimbursement warrant checks are deposited. This step would be in addition to a thorough review of the monthly reconciliation with the bank statement. (Audit Report Page 25)</p>	<p>ACTION TAKEN: The Auditor's Office has discontinued the practice of issuing County warrants to Fund Custodians to replenish imprest accounts. Since August 10, 2010, funds are sent via electronic funds transfer (EFT), directly into the Library imprest account.</p> <p>The Library agrees and has implemented this recommendation</p>
<p>12. The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund. (Audit Report Page 29)</p>	<p>The Library agrees and has implemented this recommendation</p>
<p>13. The new Fund Custodian's Supervisor should provide adequate oversight and properly investigate any fund discrepancies. (Audit Report Page 29)</p>	<p>The Library agrees and has implemented this recommendation</p>
<p>14. Library Management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian's Supervisor. (Audit Report Page 29)</p>	<p>The Library agrees and has implemented this recommendation</p>
<p>15. The new Fund Custodian should be held directly responsible and personally liable for maintaining the integrity of the authorized imprest amount and operations of the fund. (Audit Report Page 31)</p>	<p>The Library agrees and has implemented this recommendation</p>

RESPONSE FROM LIBRARY MANAGEMENT

LIBRARY IMPREST FUND	
RECOMMENDATIONS	CURRENT STATUS
16.The new Fund Custodian’s Supervisor should provide adequate oversight and properly investigate any fund discrepancies. (Audit Report Page 31)	The Library agrees and has implemented this recommendation
17.Library Management should review Countywide Policy #1203 and implement adequate segregation of duties over imprest account operations, including a thorough review of monthly bank reconciliations by the Fund Custodian’s Supervisor. (Audit Report Page 31)	The Library agrees and has implemented this recommendation
18.The new Fund Custodian should include all bank service charges and operating expenses as account expenditures when preparing a Reimbursement Request Form to replenish the imprest account. (Audit Report Page 32)	The Library agrees and has implemented this recommendation
19.The Fund Custodian’s Supervisor should ensure that these account charges are recorded accurately and included on all reimbursement requests submitted to the County Auditor. (Audit Report Page 32)	The Library agrees and has implemented this recommendation