

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



An Audit of the Key Controls of
Herriman Library

January 14, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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January 14, 2014

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Herriman Library

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Herriman Library in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Herriman Library and the cooperation from Leslie Schow, Library Manager, Michelle Turner, Circulation Desk Supervisor, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Herriman Library during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Leonardo Flores
Deputy Auditor

cc: Jim Cooper, Library Services Director
Javaid Lal, Administrative and Fiscal Manager
Leslie Schow, Library Manager

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Herriman Library. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

The Herriman Library has put into place several key controls for managing public funds. Most risks identified were minor and not expected to result in material loss. Deficiencies in segregation of duties, cash receipting, PCI compliance, and safeguarding personally identifiable information have a higher likelihood of being a liability to the County.

Findings and Recommendations

Finding # 1 - Individual accountability was not established for funds entrusted to each cashier.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 2.3.1 states:

"The County Agency's Fiscal Manager will ensure that individual accountability and effective security is established and maintained for funds entrusted to each Cashier..."

Multiple cashiers used the same cash drawer throughout the day without establishing individual accountability by properly closing out the cash drawer and verifying the accuracy of the funds entrusted to them.

When individual accountability is not established for funds entrusted to each cashier, overages and shortages cannot be assigned to a particular cashier. Also, cashiers may feel less responsible than they would if they were individually accountable for funds entrusted to them. Additionally, access by multiple cashiers to the same cash drawer increases the risk of funds being lost, stolen, or diverted for personal use.

Recommendation

We recommend that individual accountability be established for funds entrusted to each cashier.

Finding # 2 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," states in the introduction:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment."

Employees that performed cashiering duties also prepared the daily deposit.

When depositing duties are not segregated from cashiering duties, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the deposit be prepared by an employee that does not perform cashiering duties.

Finding # 3 - Personally Identifiable Information was unsecure during the online library card sign-up process.

Risk Level: Moderate

Salt Lake County Code of Ordinances Chapter 2.81 "Security of Personal Identifiers," Section 2.81.020 states:

"Each agency shall have in place...procedures for the secure collection, maintenance, transmission, transfer, or disposal of personal identifiers."

When the public signs up for a library card on the Internet, the information is transmitted as plain text, which is unencrypted (non-SSL) and not secure.

When personally identifiable information is not secure, there is an increased risk of information being lost, stolen, or diverted for personal use.

Recommendation

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

Finding # 4 - An SAQ representing Library Services' compliance with PCI-DSS had not been completed and was not on file.

Risk Level: Low

Countywide Policy #1400-7 "Payment Card Industry Data Security Standard Policy," Section 3.0 states:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

An SAQ representing Library Services' compliance with PCI-DSS had not been completed and was not on file.

When an agency is not compliant with PCI-DSS, there is an increased risk of cardholder data breaches, fines, and the inability to accept credit cards as payments.

Recommendation

We recommend that Library Services management complete and sign an annual SAQ and that the Herriman Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

Finding # 5 - Merchandise inventory records were not maintained.

Risk Level: Low

United States General Accounting Office, Executive Guide, March 2002, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 5, states:

"Managing the acquisition, production, storage, and distribution of inventory is critical to controlling cost, operational efficiency, and mission readiness. Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity's financial management records and reports...The ability to accurately count physical inventories is critical in verifying that inventory actually exists and that on-hand balances agree with financial and logistical records."

Detailed records of merchandise inventory were not maintained.

When detailed merchandise inventory records are not maintained, there is an increased risk of undetected theft or loss, unexpected shortages of critical items, and unnecessary purchases of items already on hand.

Recommendation

We recommend that the Herriman Library maintain detailed records of any merchandise inventory.

Finding # 6 - Cash balance sheets were not reviewed and signed by an independent party.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," states in the introduction:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment."

All circulation desk employees including supervisors at the Herriman Library acted as cashiers and were involved in the cash handling process. Review of the daily cash balance sheets was not performed by an independent party.

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

Recommendation

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

Finding # 7 - A fund transfer log was not used.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 2.7.3 states:

"Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox."

A fund transfer log was not used to document the retrieval of funds from or their return to the safe.

When movement of the change fund is not recorded, accountability for funds is not established leaving them at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Herriman Library use an MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.

Additional Information

Background

The Herriman Library is located at 5380 West Main Street in Herriman, Utah. The library opened in 2010 and is located next to J.L. Sorenson Recreation Center. The Herriman Library offers a variety of amenities, including books, DVD's, music CD's and audio books. The library also offers 25 public computers with Internet access and word processing capabilities, as well as high speed wireless access. The library was designed and built to be "green," with energy and economic efficiency, and with sustainable materials. The library features, "Monument to Time," a giant sculpture of stone, steel, and wood, by Israeli-born artist Ilan Averbuch. The Herriman Library successfully accomplishes Salt Lake County Library Services' mission which is to make a positive difference in the lives of customers by responsively providing materials, information, and services at community libraries located throughout the Salt Lake Valley and/or via the Internet.

Scope

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

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

Our examination period covered up to twelve months ending November 30, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, will be attached as Appendix A.



HUMAN SERVICES
DEPARTMENT
"Making a positive
difference"

January 14, 2014

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

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

Dear Mr. Hawkins:

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

As reflected in our responses, we are committed to strengthening our internal financial controls and reasonably implement the audit recommendations.

If you have any questions or need any additional information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Cooper', with a long horizontal stroke extending to the right.

James D. Cooper
Director

JAMES D. COOPER
LIBRARY DIRECTOR
jimcooper@slcolibrary.org

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**Salt Lake County Herriman Library
Management Response to the Audit Findings**

Salt Lake County Library management is ultimately responsible for implementing internal controls to protect assets, information and to ensure policy objectives are achieved. The Herriman Library conforms to the County policies and procedures as directed by the Library Management. All policies and procedures are implemented system-wide with few exceptions.

Finding # 1 - Individual accountability was not established for funds entrusted to each cashier.

Risk Level: Moderate

Recommendation

We recommend that individual accountability be established for funds entrusted to each cashier.

Management Response

Due to low volume and low monetary value of transactions, the Herriman Library staff and library fiscal department staff reviews all shortages and overages in the aggregate on daily basis. All outages or shortages over \$2 are reviewed and investigated to identify patterns. It would not be cost-effective for the library to assign a dedicated cashier to each cash register. Library staff is cross-trained in different areas of library operations to better utilize their time and to provide better customer service

Finding # 2 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

Recommendation

We recommend that the deposit be prepared by an employee that does not perform cashiering duties.

Management Response:

The Herriman Library Circulation Supervisor and Assistant Supervisors are primarily responsible for preparing the deposits. Every effort is made to separate closing cashiers from the opening responsibilities or preparing deposits. However, due to limited staffing resources and scheduling conflicts, it is imperative that the supervisors assume cashiering responsibilities as well as prepare deposits. Library believes that sufficient compensating controls are in place to mitigate any risks to public funds.

Findings # 3 - Personally Identifiable Information was unsecure during the online library card sign up process.

Risk Level Moderate

Recommendation

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

Management Response

Action Taken - *The Library is in the process of implementing secured online application.*

Finding # 4 - An SAQ representing Library Services' compliance with PCI-DSS had not been completed and was not on file.

Risk Level: Low

Recommendation:

We recommend that Library Services management complete and sign an annual SAQ and that Herriman Library keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

Management Response

Salt Lake County Library is currently working towards a system-wide PCI compliance. The Library is at 85% completion on SAQ-C certificate based on scanning data from a third party PCI scanning service. A plan is in place to complete Level-C compliance in 2014.

Finding # 5 - Merchandise inventory was not tracked.

Risk Level: Moderate

Recommendation

We recommend that the Herriman Library maintain detailed records of any merchandise inventory.

Management Response:

The Library plans to use Smart Money Manager (SMM), library's Point of Sale software to track merchandise inventory. The POS vendor has indicated that SMM can manage and automatically track on going inventory in the POS software. The Library plans to test and adopt First in, First-out (FIFO) inventory method in next few weeks.

Finding # 6 - Cash balance sheets were not reviewed and signed by an independent party.

Risk Level: Low

Recommendation

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

Management Response:

The Herriman Library has the following compensating controls in place: Library Fiscal Coordinator performs an off-site (Admin) review of daily cash deposits. The Coordinator receives

copy of the balance sheet (daily cash collection form) and bank deposit slip along with deposits in a tamper-proof bag. A master deposit is prepared after the review and an electronic confirmation is sent to Herriman Library. Finally, the Library Accountant reconciles daily cash collection sheet with the sales ledger. We believe that sufficient controls are in place to mitigate any risk to public funds.

Finding # 7 - A fund transfer log was not used.

Risk Level: Low

Recommendation

We recommend that an MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.

Management Response

Action Taken: *The Library staff is now maintaining a log to document the movement of the change fund to and from the safe.*
