

A COMPLIANCE AUDIT OF THE
SALT LAKE COUNTY
LIBRARY SERVICES DIVISION



Report Number 2015-08

December 2015



OFFICE OF THE
SALT LAKE COUNTY AUDITOR
Scott Tingley, CIA, CGAP

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Salt Lake County Auditor**

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Introduction

Since its inception in 1939 the Salt Lake County Library Services Division has grown from a two-room operation in the old Midvale school to 18 libraries and 2 reading rooms throughout the County that serve over one million residents. Their mission is to “make a positive difference the lives of our customers by responsively providing materials, information, and services at community libraries located throughout the Salt Lake Valley and/or via the Library’s website.” To facilitate this mission they provide books for patrons to read and checkout. They also have special promotions such as the Pets Plus Food Drive, and community programs ranging from musical education classes to Christmas Balloon Workshops. Each library collects cash from patrons for the purchase of materials, payment of fines, and use of the printer/copier.

Audit Scope and Objectives

Our audit scope for each facility included an analysis of change fund balances, an analysis of cash receipting and depositing procedures, and a physical examination of controlled assets. We covered a 12-month time period from 2014 through 2015.

Our audit objective was to determine if cash handling and asset procedures and practices complied with Countywide Policies.

To perform our audit work we selected a sample of deposits and examined balance sheets related to these deposits. We examined 30 deposits, performed a surprise physical cash count, and searched for 10 controlled assets at each facility.

Summary of Findings

We audited 18 library facilities and found noncompliance with Countywide policies in a few instances relating to cash handling and asset management. To give the reader a brief overview and synopsis of our findings related to these facilities we provide the following summary.

- 1. Voided transactions were not properly documented and signed.**
- 2. Controlled assets were not adequately managed and some could not be found on-site.**
- 3. The frequency of cash drawer overages and shortages was excessive in some cases.**
- 4. Copy machines and Envisionware printing mechanisms consistently exhibited overages and shortages.**
- 5. Master balance sheets were not always signed by two individuals.**

6. Master balance sheets did not always reconcile to the sum of individual balance sheets.

7. Change fund counts occasionally differed from their authorized amount.

We found minor shortages in the change fund that did not indicate a pattern of diversion to personal use. The libraries complied with Countywide Policy #1062 that requires the signing of a log upon retrieval and return of the change fund to the safe. Any additional measures to safeguard change funds are at management’s discretion. Various factors in implementing measures to safeguard funds must be considered, including the amount of money involved, the risk that funds could be stolen and the impact on operational efficiency and customer service.

In addition, we have graphically represented the location of our findings to help the reader understand and comprehend how they relate to all County libraries. In this table we have calculated a risk score for each facility based on the percentage or number of exceptions noted multiplied by a risk factor, either 1, a low-risk; 2, a medium-risk; or 3, a high-risk. See Appendix A for further detail of these risk factors.

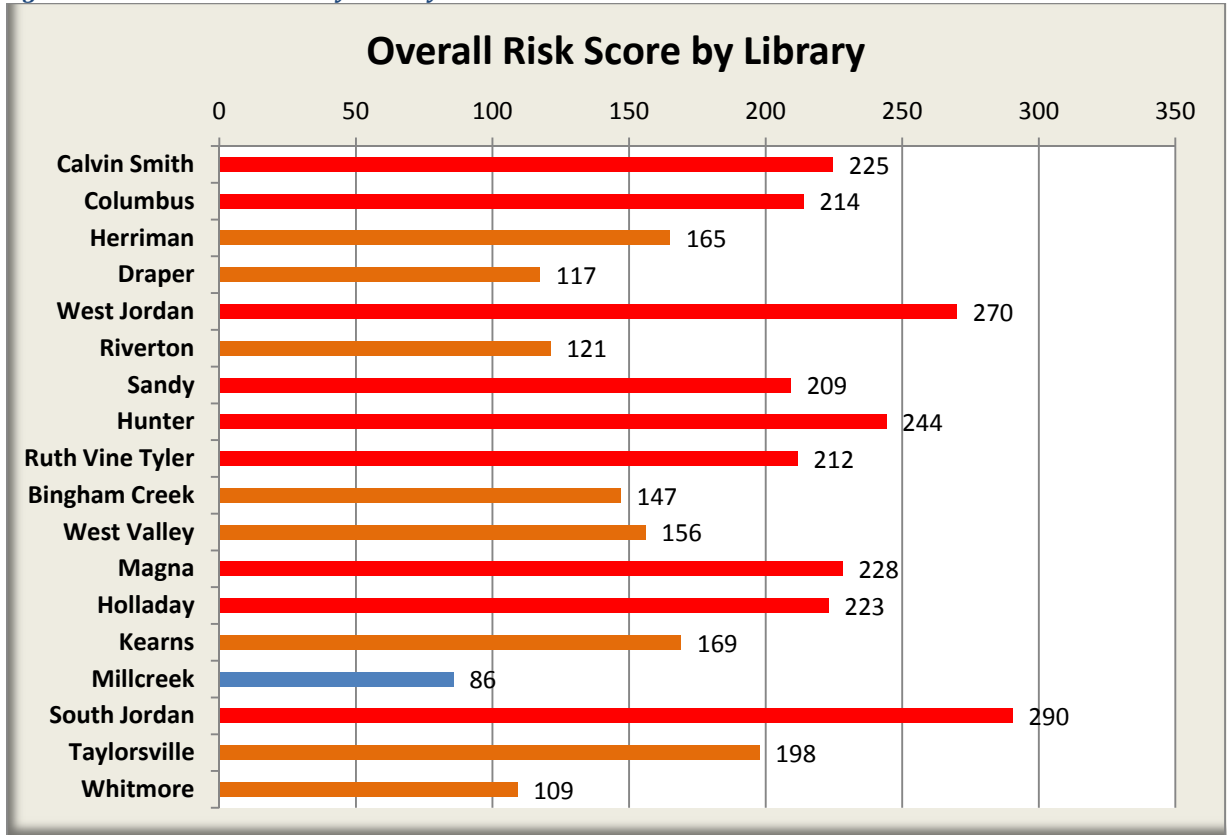
Table 1: Library Risk Matrix

Library Risk Matrix								
Library	Finding Reference*							Risk Score**
	1	2	3	4	5	6	7	
Calvin Smith	■		■	■		■	■	225
Columbus	■	■	■	■		■	■	214
Herriman	■		■	■	■	■		165
Draper	■		■	■		■	■	117
West Jordan	■		■	■	■	■		270
Riverton	■		■	■	■	■	■	121
Sandy	■		■	■	■	■	■	209
Hunter	■	■	■	■	■	■	■	244
Ruth Vine Tyler	■		■	■	■	■	■	212
Bingham Creek	■		■	■	■			147
West Valley			■		■			156
Magna	■		■	■	■	■	■	228
Holladay	■	■	■	■	■			223
Kearns	■	■	■	■			■	169
Millcreek	■		■	■			■	86
South Jordan	■	■	■	■	■		■	290
Taylorsville	■		■	■	■		■	198
Whitmore	■	■	■		■	■	■	109
*Relates to the finding numbers listed in the executive summary.	<p>■ High-risk (3-points X Occurrence)</p> <p>■ Medium Risk (2-points X Occurrence)</p> <p>■ Low-risk (1-point X Occurrence)</p>							
**See Appendix A for detailed risk score calculations								

Indicates which findings were discovered at each Library.

Figure 1 below illustrates the overall risk score assigned to each facility based on the risk score shown in Table 1. Libraries with red bars, indicating higher scores, produced a higher number of risk factors compared to the other libraries in the County.

Figure 1: Overall Risk Score by Library



Comparative Risk Scores for each Library.

Findings and Recommendations

Finding 1: Voided transactions were not properly documented and signed.

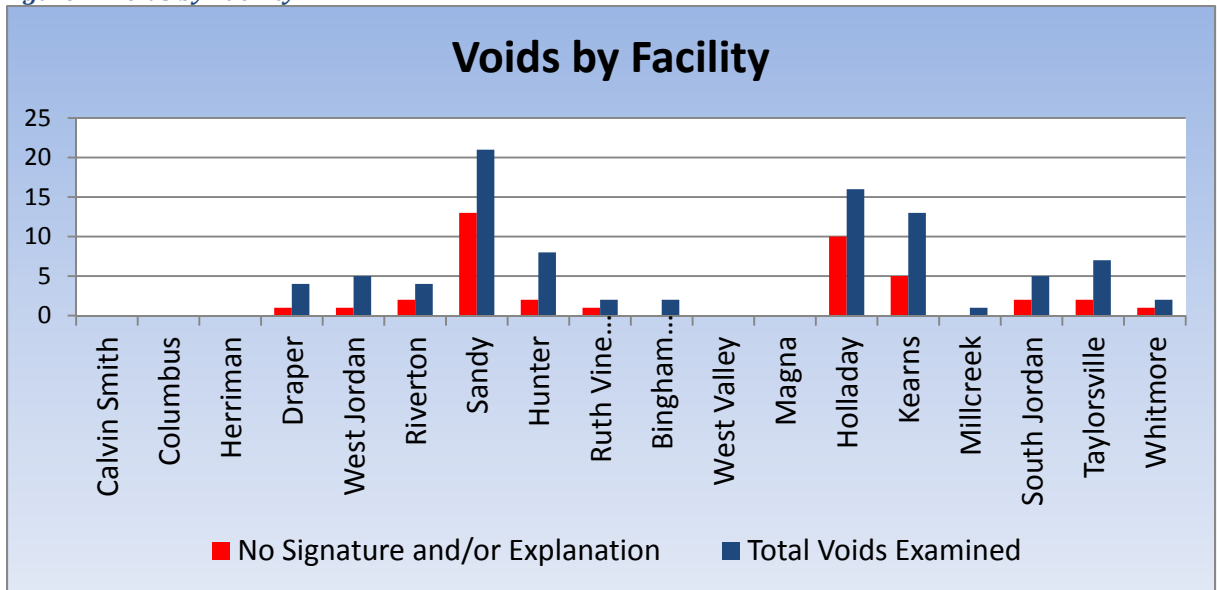
Voided transactions are one of the most common methods employees use to commit occupational fraud. They allow for an employee to remove a transaction from the accounting system and pocket the cash. During our audit we discovered an unusual pattern of discrepancies related to voided transactions.

Countywide Policy #1062, “Management of Public Funds,” Sections 3.7.2 and 3.7.3 state:

“All copies (of the original receipt) will be marked “VOID,” including the customer copy, if available. The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution. A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void. All voided receipts will be attached to the daily cash balance sheet for audit purposes.”

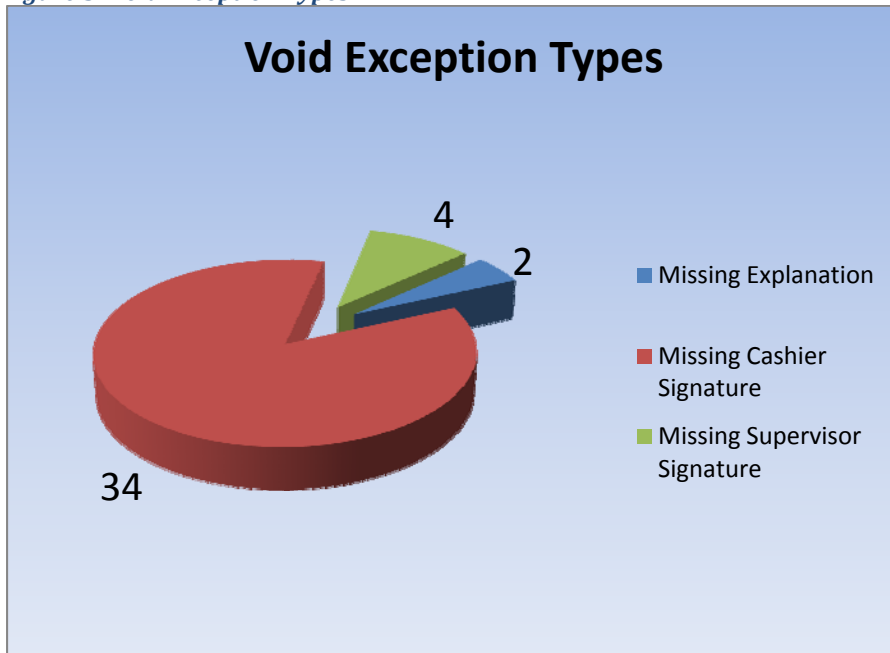
We found that three libraries had discrepancies in five or more of the voided transactions we examined. In addition, we found at least one void discrepancy at eight other libraries. Figure 2 illustrates the number of voids found at each library out of 30 deposits examined. Figure 3 illustrates the breakdown of discrepancies by type. When management does not review voided transactions there is a greater risk that cash will be stolen.

Figure 2: Voids by Facility



Some discrepancies were detected during an examination of voided transactions.

Figure 3: Void Exception Types



The most common discrepancy discovered was the lack of a cashier's signature.

Recommendation

We recommend that all voided transactions include a documented explanation, the signature of a cashier, and the signature of a supervisor as evidence of review.

Finding 2: Controlled assets were not adequately managed and some could not be found on-site.

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 2.2.3 and 2.2.11 discuss the responsibilities of property managers and the need to conduct annual inventories:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody ... At least annually, conduct a physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."

All controlled assets need to be accounted for, records maintained, and an annual physical inventory should be completed. Of the 18 County libraries, 7 did not maintain accurate

records of controlled assets. Eight libraries (44%) did not conduct an annual physical inventory within a twelve month period.

Hunter Library and Whitmore Library, as examples, had their branches remodeled. This event inherently changed the controlled assets for each branch. Neither branch created an updated assets list after the remodels. Hunter Library lists 31 wooden chairs on their asset list, but only 22 were found; also their auditorium has a new flat screen TV and a DVR/Blu-ray player that have replaced several audio/video items, but the asset list has not been updated. Table 2 shows the controlled assets in our sample that could not be found on-site. Even though some assets were sent to surplus, we could not find a Form PM2 on-site to document these transactions.

Table 2: Missing Assets

Missing Assets		
Library	Asset Description	Explanation
Columbus	Panasonic TV/VCR	Sent to surplus.
	DVD Player	Sent to surplus.
Hunter	Lion Banner Wall Art	None.
	Panda Banner Wall Art	None.
	Small Blue Chairs	None.
	DVD Player	Sent to surplus.
	Heavy Wooden Chairs	22 of 31 found.
Holladay	Panasonic TV	Sent to surplus.
	DVD/VHS Player	Sent to surplus.
	NeC TV	Sent to surplus.
Kearns	JVC VHS Player	Sent to surplus.
	JVC TV	Replaced.
	Boombox	Sent to surplus.
South Jordan	Samsung DVD/VCR	Sent to surplus.
	Typewriter	Sent to surplus.
Whitmore	Dell Laptop	Picked up by IS.
	Overhead Projector	Sent to surplus.

Assets could not be found at several libraries.

Mismanagement of property and equipment creates a greater risk for County property to be misused or stolen. The deficient record keeping, inventory, and accuracy all contribute to a higher risk of loss of property. Currently, the libraries are implementing a new controlled assets program to better manage their inventory.

Recommendation

We recommend that libraries maintain a controlled asset list and conduct an annual inventory of these assets.

Finding 3: The frequency of cash drawer overages and shortages was excessive in some cases.

Overages and shortages occasionally occur during the normal course of business. They can be caused by patrons refusing to accept their change, a computer input error, or a cashier's mathematical error. A small amount of these discrepancies are normal for any business that handles cash. However, a continual pattern of overages/shortages could indicate inadequate training or theft.

Libraries throughout the County receive the majority of their revenue from the collection of fines. These fines are often small in amount leading to the collection of more coin currency than might be found at other businesses. Dealing in large amount of coin increases the risk that cash will be miscounted or misplaced.

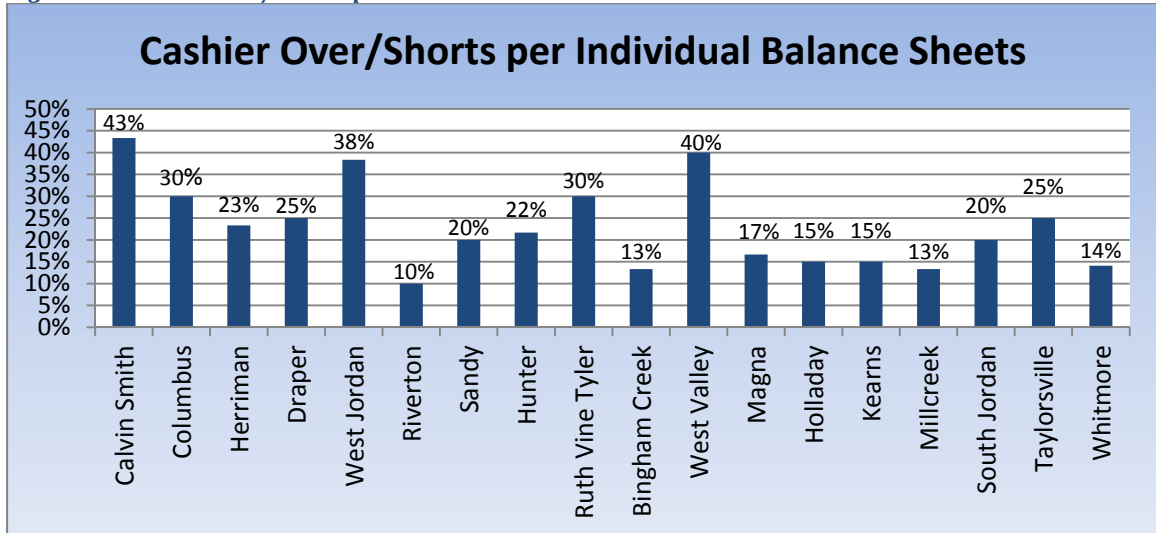
Countywide Policy #1062, "Management of Public Funds," Section 5.3.1 states:

"All overages and shortages, regardless of amount, should be recorded daily by each Cashier on MPF Form 11, Cash Over/Short Log. When a significant shortage or a pattern of shortages occurs in the accounts of any Cashier, Agency Management shall conduct an investigation of the circumstances and report their findings to the Auditor's Office."

During our audit we compared the number of overages and shortages discovered to the total cash drawer balance sheets in our sample. We discovered an unusually high frequency of overages and shortages at several facilities. However, none of the amounts were significant and the majority of over/shorts were traced to an over/short log that was reviewed by management monthly. When cash drawers continually exhibit patterns of overages and shortages it increases the risk that the County will suffer monetary loss.

In addition, we found that no personal accountability for over/shorts could be determined since the cashiers at each library all use the same cash drawer throughout the day. Figure 4 illustrates the percentage of overages and shortages per each individual balance sheet at each library. Not creating a level of personal accountability regarding overages and shortages increases the risk that an unusual pattern will continue without being corrected in a timely manner.

Figure 4: Cashier Over/Shorts per Individual Balance Sheets



Excessive overages and shortages were found in cash drawers.

Recommendation

We recommend that additional training be made with cashiers to reduce the frequency of overages and shortages.

Finding 4: Copier and Envisionware printing mechanisms consistently exhibited overages and shortages.

Each County library has one or more copy machine stations and Envisionware printing systems where patrons deposit coins or currency to pay for copies. The copiers are emptied daily and reconciled to a daily collection report generated by the machine itself. The Envisionware system is also emptied daily but is typically reconciled monthly to a separate report.

During our audit we discovered that both the copy machines and Envisionware routinely exhibited overages and shortages. Overages and shortages typically ranged from \$0.10 to \$1.50. Management could not explain the reason for these overages and shortages and they could not find a solution to preventing them. We noticed that several different libraries used alternative procedures to opening the machines for counting, which could have contributed to some of the discrepancies.

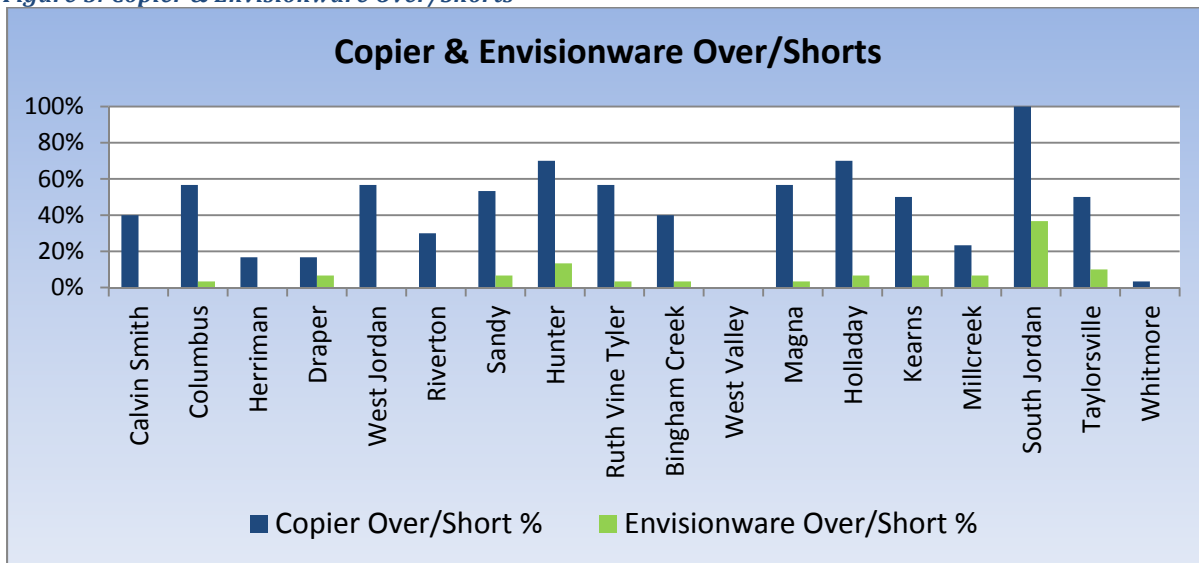
Countywide Policy #1062, "Management of Public Funds," Section 5.3.1 states:

"All overages and shortages, regardless of amount, should be recorded daily by each Cashier on MPF Form 11, Cash Over/Short Log. When a significant shortage or a pattern of shortages occurs in the accounts of any

Cashier, Agency Management shall conduct an investigation of the circumstances ...”

Figure 5 shows the percentage of over/shorts examined at each library in relation to the 30 copy machine and Envisionware balance sheets. When these unusual patterns of overages and shortages are allowed to continue, the risk of monetary loss to the County increases.

Figure 5: Copier & Envisionware Over/Shorts



Excessive overages and shortages were found in copy machine and Envisionware systems.

Library management has begun phasing these machines out and replacing them with a new system. A trial run of the new system is currently being performed at the West Valley and Kearns library. Management cited the constant occurrence of overages and shortages as the reason for the new machines.

Recommendation

We recommend that all employees follow a uniform set of procedures related to the copy/print systems in order to minimize loss.

Finding 5: Master balance sheets were not always signed by two individuals.

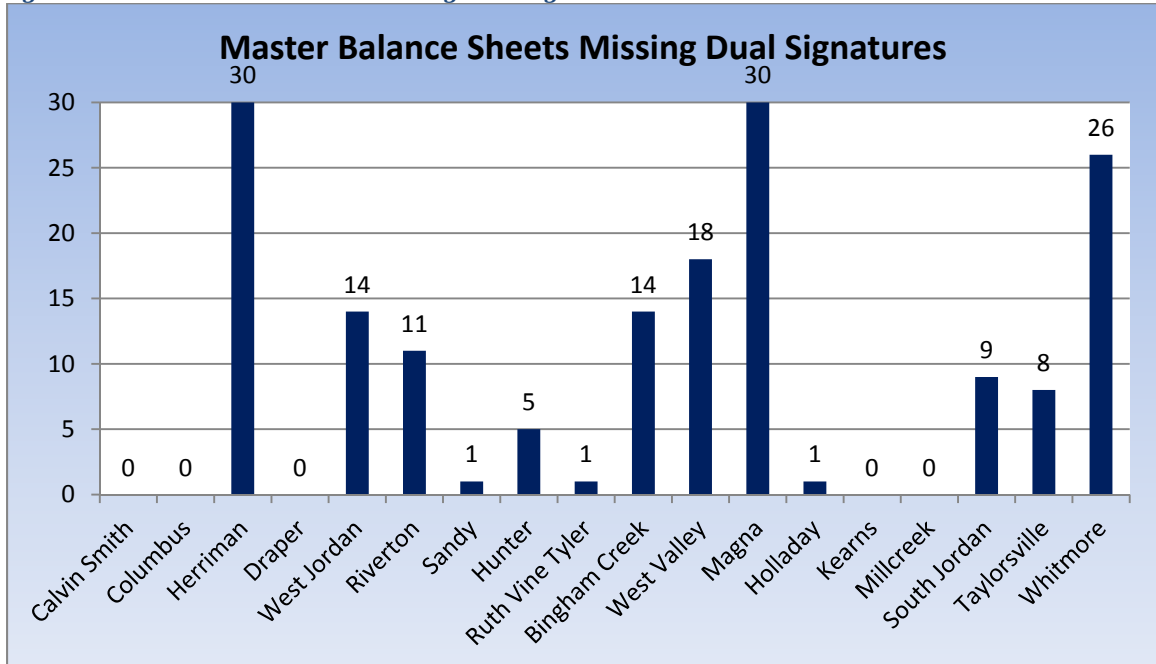
During our audit we examined a sample of 30 deposits at each library and found that the master balance sheet used to prepare the daily deposit was not signed by two individuals. Current library policy requires that if a person other than a supervisor prepares the deposit and takes the deposit to the bank, a supervisor must review and sign the deposit slip.

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

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

We discovered that if a supervisor prepared the deposit, only their signature was present. Even though it may not be possible to obtain a second signature from somebody with equal or higher authority, a second signature should still be obtained from another member of the staff. This creates a stronger level of internal control. Figure 6 shows the number of master balance sheets where only one signature was present. When the same person that prepares the deposit is the only one that verifies the deposit, it increases the risk that County funds will be diverted to personal use.

Figure 6: Master Balance Sheets Missing Dual Signatures



Master balance sheets did not always contain two verification signatures.

Recommendation

We recommend that all master balance sheets be signed by two individuals as evidence of review.

Finding 6: Master balance sheets did not always reconcile to the sum of individual balance sheets.

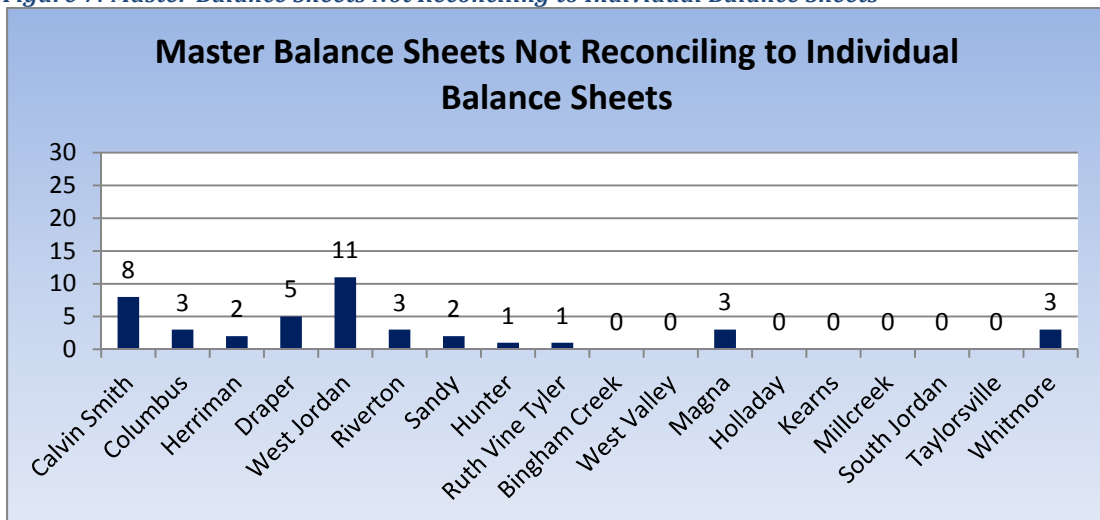
During our audit we discovered instances of master balance sheets not reconciling to the sum of individual cashier balance sheets. Either an error was made on the part of the bookkeeper performing the reconciliation or the cashier inaccurately counted and recorded their cash on the balance sheet.

Countywide Policy #1062, “Management of Public Funds,” Section 3.8.1.2 states:

“A ‘master’ balance sheet may be prepared to accumulate totals of individual balance sheets from each cash register. With any balancing procedure, the cash count total, including the breakdown by cash and check composition, should match the deposit total. To complete the balancing process, all recorded receipts shall be summed to arrive at the amount of total collections.”

At 10 of the 18 libraries we audited at least 1 master balance sheet of the 30 master balance sheets we examined did not reconcile to individual balance sheets. Three libraries had 5 occurrences or more. When the deposit reconciliation does not balance it could indicate that theft is occurring or that the cashier miscounted their drawer. Figure 7 illustrates the number of discrepancies found at each library.

Figure 7: Master Balance Sheets Not Reconciling to Individual Balance Sheets



Master balance sheets did not always reconcile to the sum of individual balance sheets.

Recommendation

We recommend that all Master Balance Sheets be reconciled to the sum of their associated individual balance sheets and that any discrepancies be investigated and explained.

Finding 7: Change fund counts occasionally differed from their authorized amount.

During our audit we performed a surprise cash count of each libraries change fund. Each change fund includes any cash drawers, copy machines, and Envisionware machines maintained at each library. We discovered that there was a discrepancy at all but five libraries. Table 3 shows the overages and shortages at each facility.

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 5.2.1 states:

"Upon discovery of any shortages, an investigation shall be conducted by the Custodian and his/her supervisor. Under circumstances of gross negligence or intentional wrong doing the Custodian may be required to personally replenish the shortage."

Table 3: Change Fund Reconciliation.

Change Fund Reconciliation			
Library	Change Fund per Mayor's Finance	Change Fund Balance as Counted	Over/Short
Calvin Smith	\$120.00	\$112.35	-\$7.65
Columbus	\$140.00	\$139.10	-\$0.90
Herriman	\$212.00	\$212.00	\$0.00
Draper	\$304.65	\$304.20	-\$0.45
West Jordan	\$272.00	\$272.00	\$0.00
Riverton	\$208.00	\$207.80	-\$0.20
Sandy	\$445.40	\$445.60	\$0.20
Hunter	\$304.00	\$303.85	-\$0.15
Ruth Vine Tyler	\$150.00	\$148.29	-\$1.71
Bingham Creek	\$302.00	\$302.00	\$0.00
West Valley	\$257.65	\$257.65	\$0.00
Magna	\$256.00	\$255.90	-\$0.10
Holladay	\$272.00	\$272.00	\$0.00
Kearns	\$196.00	\$195.95	-\$0.05
Millcreek	\$250.00	\$249.25	-\$0.75
South Jordan	\$118.00	\$117.60	-\$0.40
Taylorsville	\$271.40	\$270.55	-\$0.85
Whitmore	\$396.45	\$396.30	-\$0.15

The following overages/shortages were found in each libraries change fund

We found that the majority of discrepancies were less than \$1 and not considered material. Almost all of the shortages were attributed to either the copy machine or Envisionware system as stated earlier in this report. The replacement of these machines should lessen the amount of discrepancies in the future. The largest shortage, for \$7.65, occurred at the Calvin Smith Library. When a change fund does not balance to its authorized amount it increases the risk that County funds will be diverted to personal use.

Recommendation

We recommend that a request to Mayor's Finance Administration be made to reimburse the Calvin Smith Library for the \$7.65 shortage in its change fund.

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Appendix: Library Risk Matrix Calculation

The **risk matrix multiplier** was derived by multiplying each specific finding by a factor that makes each facility comparable in a rational manner. For instance, the most comparable multiplier derived from cashier overages and shortages (finding #3) was the percentage of overages and shortages to the total cashier balance sheets examined.

Risk Matrix Multiplier Based on Finding							
Library	Audit Findings						
	1	2	3	4	5	6	7
Level of Risk							
Calvin Smith	0	0	43	40	0	8	7.65
Columbus	0	2	30	57	0	3	0.90
Herriman	0	0	23	17	30	2	0.00
Draper	1	0	25	17	0	5	0.45
West Jordan	1	0	38	57	14	11	0.00
Riverton	2	0	10	30	11	3	0.20
Sandy	13	0	20	53	1	2	0.20
Hunter	2	7	22	70	5	1	0.15
Ruth Vine Tyler	1	0	30	57	1	1	1.71
Bingham Creek	0	0	13	40	14	0	0.00
West Valley	0	0	40	0	18	0	0.00
Magna	0	0	17	57	30	3	0.10
Holladay	10	2	15	70	1	0	0.00
Kearns	5	3	15	50	0	0	0.05
Millcreek	0	0	13	23	0	0	0.75
South Jordan	2	2	20	100	9	0	0.40
Taylorsville	2	0	25	50	8	0	0.85
Whitmore	1	1	14	3	26	3	0.15

Risks are weighted #, %, or \$-variance for comparability purposes.

Level of Risk Key

	Based on % of Total Discrepancies
	Based on # of Total Discrepancies
	Dollar-amount variance

■ High-Risk (3)
 ■ Medium-Risk (2)
 ■ Low-risk (1)

The **level of risk** was determined through the use of auditor judgment based on the level of difficulty and/or opportunity that assets could be misappropriated when the conditions of the corresponding finding is present. Findings representing a **high-risk** of asset loss were assigned a weight of 3 points, **medium-risk** 2 points, and **low-risk** 1 point.

Example: Finding #1: Voided transactions were not receiving a sufficient level of management oversight.

Library: Calvin Smith; Finding Risk = High (3-points) X (13 {representing 13 total exceptions}) = 39 points.

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Response to the Audit

Please see attachment following this page.



To: Salt Lake County Auditor's Office

From: Jim Cooper
Salt Lake County Library



Re: Response to compliance audit

Date: January 22, 2016

HUMAN SERVICES
DEPARTMENT

"Making a positive
difference"

During the summer of 2015 the Library's Fiscal Working Group, made up of the Fiscal Manager, Accountant, Fiscal Coordinator and several Circulation Supervisors, conducted reviews of each branch to review cash handling and daily deposit procedures. The group developed a training manual and we conducted a training with the branch managers and circulation supervisors in early December. The goal of the training was to reinforce the procedures of the Library and to create consistency between the branches.

Internal Audit's review began prior to this training. David Lewis and Aaron Nilsen have provided the specific detail of their reviews and we will be following up with each branch to look specifically at the issues noted. The Fiscal Working Group will conduct reviews again this summer, looking specifically for compliance with the training manual and library procedures. If we feel it is needed, we will conduct an additional training for all cash handlers this year.

The response to each finding is below.

1-Voided transactions were not properly documented and signed.

The main issue here was that the cashier had not signed the void slip. In most cases the cashier had written their name but not signed the void slip. We agree this should be done and will emphasize this with our cash handling staff.

2-Controlled assets were not adequately managed and some could not be found on-site.

We are in the process of revising our asset list. Our current list contains every chair in the system, individually tagged, for example. As we are still updating the master list, the branches individual lists are not up-to-date. The update should be completed in the next month. Fiscal will verify the assets as each location and ensure an updated list is on-site.

3-The frequency of cash drawer overages and shortages was excessive in some cases.

We will conduct further reviews of the branches noted in the audit. The dollar amounts are very small and Supervisors review the over/short log monthly. We will continue to train in order to reduce the frequency of over/shorts.

JAMES D. COOPER

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4-Copier and Envisionware printing mechanisms consistently exhibited overages and shortages.

We have had issues with balancing these machines since they were implemented. Starting in November, 2015, we are implementing a new copy/print/scan station machine with new software. We believe this will resolve the balancing issues we have been having. We have also developed procedures for balancing and will be training all cash handling on these procedures.

5-Master balance sheets were not always signed by two individuals.

We agree this should be done and will conduct a review of the branches noted as having discrepancies. We covered this issue in our training and will continue to emphasize it with staff.

6-Master balance sheets did not always reconcile to the sum of individual balance sheets.

We agree this should be done and will conduct a review of the branches noted as having discrepancies. We covered this issue in our training and will continue to emphasize it with staff.

7-Change fund counts occasionally differed from their authorized amount.

We believe that the implementation of the new copy/print/scan station machines and software should lessen the frequency of over/shorts, if not eliminate them altogether.