A REPORT

TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR

An Audit of

Library Administration

May 19, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

Audit reports are available at
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May 19, 2014

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

Re: An Audit of Library Administration

Dear Mayor McAdams:

We recently completed an analysis of Library Administration pursuant to 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. 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 Library Administration and the cooperation from Javaid Lal, Administrative and Fiscal Manager, Elizabeth Anguiano, Accountant, Kathy Christiansen, Fiscal Coordinator, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Library Administration 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
April Townsend, Associate Director Finance & Operations
Elizabeth Anguiano, Interim Administrative & Fiscal Manager

Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Library Administration. 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

Library Services Administration 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 financial reporting for grants, expenditures, and sales taxes along with deficiencies in internal controls over cash depositing, controlled assets, purchasing cards, and accounts receivable have a higher likelihood of being a liability to the County. Reports of recent audits of Library Services Administration were released to the public in December 2010 and December 2012.

Findings and Recommendations

Finding # 1 - Professional service charges were not accounted for correctly.

Risk Level: High

National Council on Governmental Accounting Statement 1, Paragraph 70 states:

"Expenditure Recognition. The measurement focus of governmental fund accounting is upon expenditures—decreases in net financial resources—rather than expenses. Most expenditures and transfers out are measurable and should be recorded when the related liability is incurred."

Additionally, Interpretation No. 6 of the Governmental Accounting Standards Board, paragraph 12 states:

"In the absence of an explicit requirement to do otherwise, a government should accrue a governmental fund liability and expenditure in the period in which the government incurs the liability. Governmental fund liabilities and expenditures that should be accrued include liabilities that, once incurred, normally are paid in a timely manner and in full from current financial resources-for example, salaries, professional services, supplies, utilities, and travel. To the extent not paid, such liabilities generally represent claims against current financial resources and should be reported as governmental fund liabilities."

In 2013, payments were made to a company that handles certain professional collection services for Library Services, which included contacting patrons on their collectible fees/fines. Patrons made payments for fees/fines at Library branches; payments were not accepted by the collection company. Payments made by Library Services for these services were not accounted for as expenditures, which made the expenditures appear lower than they were. The total amount accounted for incorrectly was $113,469.41.

When expenditures are not accounted for properly, there is an increased risk that incorrect financial information could negatively affect a stakeholder's decision.

Recommendation

We recommend that decreases in net financial resources be accounted for as liabilities and expenditures.

Finding # 2 - Federal and State government-issued grants in 2013 were not accounted for correctly.

Risk Level: High

Statement No. 65 of the Governmental Accounting Standards Board, Paragraph 10 states:

"Providers of resources in government-mandated or voluntary nonexchange transactions frequently establish eligibility requirements. Resources transmitted before the eligibility requirements are met (excluding time requirements) should be reported as assets by the provider and as liabilities by the recipient."

Federal and State government-issued grants (i.e., voluntary nonexchange transactions) to Library Services in 2013 were accounted for as revenue before grant requirements were met. This means, funds totaling $198,522 were accounted for prematurely.

When grants are not accounted for properly, there is an increased risk that incorrect financial information could negatively affect a stakeholder's decision.

Recommendation

We recommend that grants not be accounted for as revenue prematurely.

Finding # 3 - Deposits were not always made in a timely manner.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by § 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable, but no later than three days after receipt."

We found that 20 out of 33 deposits examined were deposited more than three days after receipt of collections.

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

Recommendation

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

Finding # 4 - Accounts receivable aging information was not maintained in a standardized manner.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 5.5 states:

"Aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner. An aged analysis of accounts receivable ledger balances (aging schedule) shall be prepared each month. The aging schedule shall be maintained in a manner that provides information as to which amounts are 30 days old or less at the beginning of a month, which are 31 to 60 days old, 61 to 90 days old, 91 to 120 days old, and over 120 days old. The aging will be based on the date of the invoice. Depending on the adaptability of the software being used, individual accounts shall be listed on the aging schedule. Columns and rows shall be totaled."

Accounts receivable aging information was not maintained in a standardized manner showing which amounts are 30 days old or less at the beginning of a month, which are 31 to 60 days old, 61 to 90 days old, 91 to 120 days old, and over 120 days old.

When aging information is not maintained in a standardized manner, the length of time each collectible amount has been outstanding is not shown on reports. This increases the difficulty of properly managing collectible amounts. Additionally, the efficiency and effectiveness of collection efforts is not maximized.

Recommendation

We recommend that accounts receivable aging information be maintained in a standardized manner as described by Countywide policy.

Finding # 5 - A controlled asset inventory was not conducted at least annually.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.11 states:

"At least annually, conduct physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."

A controlled asset inventory was last conducted in September 2012. The controlled asset inventory was not conducted again until 2014.

When accountability for assets is not fully established by conducting an annual inventory, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that a comprehensive controlled asset inventory be conducted at least annually.

Finding # 6 - State sales tax was not accounted for as a liability.

Risk Level: Low

Statement No. 33 of the Governmental Accounting Standards Board, Paragraph 27 states:

"Sometimes, a government collects derived tax revenues or imposed nonexchange revenues on behalf of the government (recipient) that imposed the revenue source. For example, a state may administer and collect a local option sales tax at the same time that the state collects the state sales tax; the state subsequently remits the appropriate amount of the collections to the participating local government recipients. Because those recipients impose the tax or other revenue source, they should have or can reasonably estimate the accrual-basis information necessary to comply with the requirements of this Statement for derived tax revenues or imposed nonexchange revenues."

State sales tax totaling $16,975.14 was accounted for as a revenue and not as a payable when they were incurred, resulting in inflated revenues.

When tax revenues are not accounted for properly, there is an increased risk that incorrect financial information could negatively affect a stakeholder's decision.

Recommendation

We recommend that sales tax be accounted for as a payable.

Finding # 7 - Two $300 security deposits were not accounted for as liabilities.

Risk Level: Low

The 2013 AICPA Audit and Accounting Guide, State and Local Governments, Paragraph 8.76, provides the following guidance on reporting customer and developer deposits in proprietary funds:

"Many electric, water, gas, sewer, and other utility operations require customer deposits to assure timely payment for services. Customer deposits to secure service payments normally are required before service starts and are refunded when service is terminated. Utility operations also may require land developers or individual property owners to make deposits as advance payments of system development fees to extend utility service lines to their properties. Utility operations generally are reported in enterprise funds, and unearned customer and developer deposits initially are recorded as liabilities in those funds and in the government-wide financial statements. Customer deposits remain as liabilities until they are applied against unpaid billings or refunded to customers. Developer deposits remain as liabilities until they are recognized as revenue from system development fees."

Two $300 Viridian Center security deposits were accounted for as revenue and not as liabilities, resulting in inflated revenues.

When security deposits are not accounted for properly, there is an increased risk that incorrect financial information could negatively affect a stakeholder's decision.

Recommendation

We recommend that security deposits be accounted for as liabilities until they are applied against unpaid billings or refunded to customers.

Finding # 8 - Purchasing cards were not signed by the cardholder.

Risk Level: Low

Countywide Policy #7035 "Purchasing Cards Authorization and Use," Section 2.1 states:

"Immediately, upon receipt of the P-Card, it shall be signed by the Cardholder."

Of the 31 purchasing cards reviewed, 10 cards were not signed on the back by the cardholder.

When a purchasing card is not signed, the cardholder cannot easily be verified by a vendor when making transactions.

Recommendation

We recommend that the cardholders sign their purchasing card immediately upon receipt.

Finding # 9 - Purchasing cards were not adequately safeguarded.

Risk Level: Low

Countywide Policy #7035 "Purchasing Cards Authorization and Use," Section 2.2 states:

"The Cardholder shall be responsible for authorized and allowable use and safeguarding of the P-Card."

Of the 31 purchasing cards reviewed, 2 cards were not adequately safeguarded. The purchasing cards were kept in an unlocked office accessible by other employees.

When a purchasing card is not safeguarded, there is an increased risk of the purchasing card being lost, stolen, or diverted for personal use.

Recommendation

We recommend that cardholders safeguard their purchasing cards from unauthorized use.

***Finding # 10 - A purchasing cardholder had not attended purchasing card training*.**

Risk Level: Low

Countywide Policy #7035 "Purchasing Cards Authorization and Use," Section 1.3 states:

"The cardholder agreement with the County shall be signed by the Agency-designated applicant / Cardholder. The Cardholder, their supervisor, and the Agency fiscal manager shall attend P-Card training provided by the Division of Contracts and Procurement."

Of the 31 purchasing cards reviewed, 1 cardholder was not listed by the Division of Contracts & Procurement as having attended the purchasing card training.

When the purchasing card training is not attended, cardholders may not be aware of all stipulations regarding record keeping, authorized and unauthorized purchases, and procedures in the event of loss or theft of the purchasing card, as taught in the training.

Recommendation

We recommend that the cardholder attend the purchasing card training.

Finding # 11 - Meal Reimbursement Forms were not signed by the Elected Official or Division/Department Director.

Risk Level: Low

Countywide Policy #1020, "County Meals," the Purpose states:

"If meals, refreshments, or other food are served at functions where only employees attend, the food should not be provided at County expense, unless specifically approved by the Elected Official or as authorized by the Department Director."

During our review of purchasing card transactions, a sample of 18 Meal Reimbursement Forms were tested. Of the 18 forms, 2 were not signed at all and 16 were signed by the fiscal manager.

When Meal Reimbursement Forms are not signed and dated by the Elected Official or Division/Department Director, proper authorization and approval cannot be verified. Additionally, there is an increased risk of inappropriate expenditures.

Recommendation

We recommend that Meal Reimbursement Forms be signed and dated by the Elected Official or Division/Department Director.

Additional Information

Background

In early 1939, the Salt Lake County Library opened in two rooms of the old Midvale School. Within four months the library had issued a library card to more than 1,700 patrons. Today over 70% of area residents hold a library card with an average of 175 new cards issued every day. Salt Lake County operates 19 libraries and two reading rooms. Neighborhood locations allow libraries to meet system-wide goals while providing the flexibility to tailor collections, programming, and services to unique communities throughout the valley. The mission of Salt Lake County Library Services is to make a positive difference in 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.

Scope

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

- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Purchasing Card Use
- Accounts Receivable
- Accounts Payable
- Third Party Contracts
- Waivers, Fines, and No-Sale Transactions
- Revenues and Expenditures

Our examination period covered up to twelve months ending December 31, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation 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.

SALT LAKE COUNTY
LIBRARY SERVICES

HUMAN SERVICES DEPARTMENT
"Making a positive difference"

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May 15, 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 Library Administration

Dear Mr. Hawkins:

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

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

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

Sincerely,

James D. Cooper
Director

An Audit of the Key Controls of

Salt Lake County Library Administration

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 Library Administration conforms to the County policies and procedures and all policies and procedures are implemented system-wide with few exceptions.

Finding # 1 – Professional service charges were not accounted for correctly.

Risk Level: High

Recommendation:
We recommend that decreases in net financial resources be accounted for as liabilities and expenditures.

Management Response:
The Library is in discussions with the Mayor's Financial Administration to properly account for these charges. Mayor's Financial staff recommended creating a contra-liability account and designating a portion of the fee and fine revenue to pay for the collections fee. Library staff will follow up with the Mayor's Financial staff to create the appropriate adjusting entry.

Finding # 2 – Federal and State government-issued grants in 2013 were not accounted for correctly.

Risk Level: High

Recommendation:
We recommend that grants not be account for as revenue prematurely.

Management Response:
The Library will review future grants funds and book them accordingly as "unearned revenue" prior to expending them as outlined by the grantors.

Finding # 3 - Deposits were not always made in a timely manner.

Risk Level: Moderate

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

Management Response:
The Library makes every effort to deposit funds within the time allowed by the Utah Code. As a result of recommendations from previous audits, Salt Lake County Library started a pilot project consisting of 8 libraries of which Library Administration participated. This pilot project required each location be responsible for making their own bank deposit on a daily basis. As of May 15, 2014 this practice was implemented system-wide so now all deposits will be made within 3 days of receiving funds.

Finding # 4 – Accounts receivable aging information was not maintained in a standardized manner.

Risk Level: Low

Recommendation:
We recommend that accounts receivable aging information be maintained in a standardized manner as described by Countywide policy.

Management Response:
Based on our contract with Unique Management Services, Inc., they have access to patron account information and are responsible for providing the Library with information indicating the age of the account. The reports indicating whether an account is 30 days, 60 days, or 120 days past due is available via the web interface between the Library and Unique. We rely on this information to determine when an account needs to be flagged for collections and is also the basis for accounts to be forwarded to the District Attorney's Office.

Finding # 5 - A controlled asset inventory was not conducted at least annually.

Risk Level: Low

Recommendation
We recommend that a comprehensive controlled asset inventory be conducted at least annually.

Management Response:
We concur with the findings. The Library will conduct its year-end controlled assets inventory and reconcile all discrepancies.

Finding #6 – State sales tax was not accounted for as a liability.

Risk Level: Low

Recommendation
We recommend that sales tax be accounted for as a payable.

Management Response:
We concur with the findings. Library Management will account for future sales tax as a liability.

Finding #7 – Two $300 security deposits were not accounted for as liabilities.

Risk Level: Low

Recommendation
We recommend that security deposits be accounted for as liabilities until they are applied against unpaid billings or refunded to customers.

Management Response:

The Library concurs with this finding. We will review our accounting procedures to book security deposits as unearned revenue until a service is delivered to patrons to reflect accurate rental income.

Finding #8 – Purchasing cards were not signed by the cardholder.

Risk Level: **Low**

Recommendation
We recommend that the cardholders sign their purchasing card immediately upon receipt.

Management Response:
We concur with this finding and will ensure that all Library purchasing card holders sign their card immediately upon receipt.

Finding #9 – Purchasing cards were not adequately safeguarded.

Risk Level: **Low**

Recommendation
We recommend that cardholders safeguard their purchasing cards from unauthorized use.

Management Response:
We will remind all cardholders to safeguard their purchasing cards and ensure they are securely stored when not in use.

Finding #10 – A purchasing cardholder had not attended purchasing card training.

Risk Level: **Low**

Recommendation
We recommend that the cardholder attend the purchasing card training.

Management Response:
Library Services does not control the issuing of purchasing cards. County Contracts and Procurement has this responsibility and does not issue a purchasing card until the employee has attended the required training. If an employee has transferred from another County agency, that employee may have attended the required training and received a card. A transferred employee is able to retain an issued purchasing card and have the card account transferred to the new agency. However, Contracts and Procurement may not have an updated list showing transfers of an employee to Library Services.

Finding #11 – Meal reimbursement forms were not signed by the Elected Official or Division/Department Director.

Risk Level: **Low**

Recommendation:

We recommend that all Meal Reimbursement Forms be signed and dated by the Elected Official or Division/Department Director.

Management Response:
All Meal Reimbursement Forms are sent to the Library Fiscal Manger who is designated by the Library Director to approve all meal reimbursement requests. The Purchasing Card paperwork along with the Meals Reimbursement Form is sent to the Fiscal Manager after the close of the billing cycle. The Fiscal Manager then reviews and signs the forms. Beginning June 2014, purchasing card holders will be scanning purchasing card paperwork to Fiscal Staff for review and approval so required signatures would have already been obtained.
