

INTERNAL AUDIT REPORT

2017-01

Anchorage Public Library Cash Controls

Anchorage Public Library

January 11, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

January 11, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-01, Anchorage Public Library Cash Controls, Anchorage Public Library**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Anchorage Public Library Cash Controls. The objective of this audit was to determine whether the Anchorage Public Library had proper cash controls in place, and if these controls were in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed surprise cash counts, verified if deposits were made timely, and reviewed Cashier Daily Summary Reports and other cash documents for completeness. We also reviewed controls over the Anchorage Public Library's keys and safes. In addition, we determined if the Anchorage Public Library's staff were in compliance with the cashier and supervisor training requirements of Policy and Procedure 24-1.

Our audit revealed that cash controls at the Anchorage Public Library require improvement. Specifically, cash deposits were not reconciled with paid fines and fees as recorded in the SirsiDynix Symphony, an integrated library system. In addition, Anchorage Public Library staff had not processed nor deposited cash payments collected at the Anchorage Public Library's self-service machines. Moreover, the Anchorage Public Library's cash handling practices did not always comply with Policy and Procedure 24-1. Finally, there was a lack of cash controls over revenues collected from the Anchorage Public Library's JAMEX vending machines for copiers and printers and revenues collected from the Z.J. Loussac Library's coin change machines.

There were five findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Acting Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

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January 11, 2017

Internal Audit Report 2017-01
Anchorage Public Library Cash Controls
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Introduction. According to the Anchorage Public Library's (Library) website, the Library's Z.J. Loussac Library (Loussac Library) and four neighborhood libraries (Chugiak-Eagle River, Mountain View, Muldoon, and Girdwood's Scott and Wesley Gerrish Branches) serve over 940,000 visitors and circulate over 1.7 million books, media and downloadable materials each year. The Library collects revenues for its own services, such as fines for late return and lost materials, fees for copiers and printers, and room and space rental fees. The Library also collects revenues for the Municipality's Public Transportation Department from bus pass sales. The Library currently uses SirsiDynix Symphony (Symphony), an integrated library system, to manage its collections and customer accounts. According to the Municipality's PeopleSoft Financial System, \$449,729 was collected by the Library in 2015.

Objective and Scope. The objective of this audit was to determine whether the Library had proper cash controls in place, and if these controls were in compliance with Municipal Policy and Procedure (P&P) 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed surprise cash counts, verified if deposits were made timely, and reviewed Cashier Daily Summary Reports (CDSR) and other cash documents for completeness. We also reviewed controls over the Library's keys and safes. In addition, we determined if the Library's staff were in compliance with the cashier and supervisor training requirements of P&P 24-1.

We conducted this audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of September through October 2016. The audit was requested by the Administration.

Overall Evaluation. Cash controls at the Library require improvement. Specifically, cash deposits were not reconciled with paid fines and fees as recorded in Symphony. In addition, Library staff had not processed nor deposited cash payments collected at the Library's self-service machines. Moreover, the Library's cash handling practices did not always comply with P&P 24-1. Finally, there was a lack of cash controls over revenues collected from the Library's JAMEX vending machines for copiers and printers and revenues collected from the Loussac Library's coin change machines.

FINDINGS AND RECOMMENDATIONS

1. Reconciliation Not Performed for Paid Fines and Fees.

- a. **Finding.** Cash deposits were not reconciled with paid fines and fees as recorded in Symphony. As a result, there was no positive assurance that all fines and fees were processed through the Library's cash registers and deposited. The Symphony system records all fines and fees. When a customer pays a fine or fee, the staff member records the payment in Symphony and then processes the same payment through the cash register. If the transaction is paid with a credit or debit card, it is processed a third time since Symphony and the cash register do not interface with the credit card processor. Fines and fees can be waived or reduced at the discretion of each cashier, without supervisor approval, which violates segregation of duty principles. There is no formal policy or procedure for waiving fines and fees for library patrons.

Because the cash register was not linked to Symphony, a cashier could misappropriate the payment and relieve the fine or fee in Symphony. Since Symphony did not provide basic management reports such as fines and fees relieved by date, by staff, or by location, no reconciliation occurred between Symphony and the cashier register

reports. In addition, management was not aware of the amount of waived fines and fees. Therefore, losses may not have been detected.

b. Recommendation. To help ensure that cash is adequately safeguarded, the Library Director should:

- 1) Explore if Symphony can be enhanced to interface with the Library's cash registers to automatically relieve fines and fees when they are paid, to help reduce duplication of effort and streamline processes.
- 2) Ensure that reports are developed and run showing all fines and fees cleared through Symphony. These reports should be used in a periodic reconciliation between cash collected and fines and fees relieved in Symphony.
- 3) Develop a policy and procedure for waiving and reducing fines and fees.

c. Management Comments. Management stated, "Management concurs with the audit finding and recommendations. Library staff will explore if Symphony can be enhanced to interface with the cash registers, but this option may prove too costly. Library staff is working with the Joint Library Consortium to determine what a report would entail that could track staff payment history. In addition the Library Director and staff will develop a written policy and procedure for waiving and reducing fines and fees. This policy will reflect the need to protect public goods while also accepting the extenuating circumstances brought to us by our users. Finally, Loussac currently has trackable individual logins that can be used for payment history. The option for branches is being investigated because individual logins are not compatible with PC Reservation software loaded on circulation desk computers. Supervisor will periodically monitor the staff history of payments taken."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Cash Collected at Self-Service Machines Not Deposited.**

- a. **Finding.** Library staff had not processed nor deposited cash payments collected at the Library's self-service machines. These machines accept both cash and credit/debit card payments. Most patrons pay using their credit or debit card. For example, in March 2016, \$162 in cash was collected and \$902 was collected using a credit/debit card. We found that at all five library locations, most of the cash payments accepted at the self-service machines had not been removed from the machines since they started accepting cash payments in early 2016. According to Library staff, the daily cash collection reports printed from the machines often reported an amount different from the amount available for deposit. As a result, Library management decided to not deposit the cash collected at the self-service machines. In most cases, these amounts did not match because coin and/or cash was used to automatically replenish and maintain the machine's change fund at a predetermined level. For example, the daily cash collection reports for June 5, 2016, showed \$9.75 in cash was collected by a self-service machine at the Loussac library, but only \$6.00 was available for deposit. According to the cash collection reports, the difference, \$3.75, appears to have been automatically placed in the machine's change fund to provide change for customers. However, we were unable to verify if the machines contained the correct amount of cash since they had never been emptied or reconciled.
- b. **Recommendation.** The Library Director should ensure that all cash collected by the self-service machines is processed and deposited. In addition, cash collected should be deposited daily as required by P&P 24-1 unless an exception is granted by the Chief Fiscal Officer. Finally, the Library Director should consider deactivating the self-service machines' cash accepting feature, for all but one machine at each library location, until Library staff better understand the cash collection reports.

- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. The software and hardware of the self-service machines was recently upgraded and we are working with the vendor for a fix and to improve the software and hardware interface. Given the numbers of self-service machines and vendor recommendations for emptying cash, we anticipate emptying the machine once each quarter. We will request an exception to P&P 24-1 to be approved by the CFO for the alternate deposit schedule. In case we are not able to have fully functioning machines, we will evaluate how many cash machines to activate per location. We will respond to the Auditor by Feb, 2017, to determine next steps. This will allow the vendor time to either test or install new hardware and software.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Cash Handling Practices Not Always in Compliance.**

- a. **Finding.** The Library’s cash handling practices did not always comply with P&P 24-1. While we are required to disclose the weak control environment, we recognize that the Library faces significant challenges. Nonetheless, non-compliance with applicable policies and procedures weakens the cash control environment and may result in possible irregularities. Specifically, we found the following:
- *Cashiers Not Sub-Totaling Register Activity* - At all five library locations, cashiers did not subtotal cash register activity (run an X-tape) and reconcile cash collected during their shift when there was a change of cashiers. The Cashier Guide requires each cashier, when relieved from the cash register, to “. . . take a reading of the register (X-tape) to get a sub-total of cash collected and count all cash.” It further states, “This must be done each time there is a change of cashiers unless there are separate cash drawers for alternate or relief cashiers.” Separate cash drawers were not provided for each cashier.

- *Surprise Cash Counts Not Performed* - Supervisors did not perform surprise cash/check counts and reconciliations for each cashier at five of the six library locations. According to P&P 24-1, “several times throughout the year, the supervisor of each collection location shall perform an unscheduled cash/check count and reconciliation for each cashier. The supervisor must report findings to the Department Head in writing. Copies are to be sent to Internal Audit and the information should be used to evaluate employee performance.” Lack of unscheduled cash counts may lead to inadequate preventive controls, decreased personal accountability by each cashier, and an increased risk of misappropriations.
- *Number of Cashiers Appeared Excessive* – The number of Library staff who performed cashiering duties appeared to be excessive. For example, at the Loussac Library, we identified nine different library assistants who were assigned cashiering duties. We also found that at all four branch locations most of the branch staff, including supervisors in some locations, performed a cashiering function. Most cashiers worked out of the same cash drawer to receive payments. As a result, accountability for the cashiering function was defused. According to P&P 24-1, “Access to all Municipal cash registers, safes, and other methods of storing cash is restricted to the cashier, cashier's supervisor, Department Head, and personnel that have been authorized by the Department Head. . . . The number of authorized personnel should be limited to maintain maximum security.”
- *Controls Over Safes Needs Improvement* - The number of library staff who had access to the Library’s safes appeared excessive. Our review found that at the Loussac Library, all 11 staff (nine library assistants and two supervisors) who handle cash had access to the Library’s safes. At the branch libraries, most of the staff had access to the safes.

In addition, the Library did not always change the safes' combination when staff transferred or terminated employment. For example, at one location, the safe combination had not been changed in at least the last six years, despite a number of staff that had left. At another location, management stated that “. . . between past and present employees, up to 8 have/have had this same combination . . .” Policy and Procedure 24-1 states, “Safe combinations must be changed as soon as possible after an employee having knowledge of them transfers or terminates employment. Combinations should be known by specifically designated personnel only.”

- *Cash Documents Not Submitted Daily* - Library staff did not always submit cash documentation to the Treasury Division on a daily basis. Specifically, our review found that supervisors at two library locations signed the CDSR in batches, sometimes more than 10 CDSRs at a time. The Cashier Guide requires that “Each cashier must fill out a cashier daily summary report to reconcile payments received to other daily documentation. Reconciliation of documentation to cash received and cash receipts shall be performed DAILY by the cashier, alternate cashier or supervisor. They must be verified and signed by the supervisor then forwarded to Treasury.”
- *Cash Register Not Closed Out Daily* - At one branch, library staff did not always close out (run a Z-tape) the cash register at the end of the day nor prepare a daily cash receipt. The Cashier Guide states that, “The cash register must be totaled out at the end of each working day to identify the amount of cash collected.”
- *Deposit Not Always Made Daily* - Deposits were not always made on a daily basis at the Loussac Library. Specifically, our review of 44 deposits at Loussac Library found 26 of 44 deposits (59%) were made one to four working days after the CDSRs were prepared. For example, a CDSR was prepared on April

12, 2016, but the deposit was made on April 18, 2016. Policy and Procedure 24-1 states that, “All Department Heads shall ensure that . . . cash received is immediately secured, accounted for, and deposited on a DAILY basis. . . .”

b. **Recommendation.** The Library Director should ensure that cash controls at the Library comply with P&P 24-1.

c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendations.

- *“Cashiers not sub-totaling Register Activity:* At Loussac, for Range 8 library assistants performing cashier duties, one cashier is scheduled per shift with a cash drawer assigned and no need for an X-tape until the shift is completed. Range 9 library assistants, who augment Range 8 library assistants without a cash drawers assigned, will run X-tapes when their shifts are completed. Scheduling at the branches will be reviewed to enable specific staff to be assigned cashiering duties. When required, an X-tape will be run at the branches.
- *“Surprise cash counts.* All supervisors require Surprise Cash count training. We will coordinate with the Account Receivable Section of the Treasury Division for the training in first quarter 2017. After that, surprise cash counts will be conducted at least twice a year at Loussac and branches.
- *“Number of Cashiers.* At Loussac, one cashier is scheduled per shift. Scheduling at the branches will be reviewed to enable specific staff to be assigned cashiering duties.
- *“Safe combinations.* Due to budget constraints and high turnover, it is unrealistic to require a combination change every time there is a personnel change. However the safes are placed in locked rooms with limited access and

combinations will be changed at the beginning of 2017 at all locations. We will request an exception to P&P 24-1 to be approved by the CFO.

- *“Cash register not closed out daily. We will ensure that the branch library runs a Z tape each day to close out the cash register.*
- *“Cash documents not submitted daily/Deposits not made daily. Due to staff shortages, and procedures, there are times when cash documents are not always submitted daily and deposits are not verified for a day or two. Deposit delays are kept to a minimum and all monies are kept in a secure location until verified and picked up by the courier. For some branches, doing daily deposit is not practical. We have exceptions to P&P 24-1 approved by the CFO for alternate deposit schedules for some of these branches. The exceptions will be updated, and requested, if needed and timely review of cash documents has been emphasized to staff.”*

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Controls over Collecting Revenues for Copiers and Printers Needs Improvement.**

a. **Finding.** There was a lack of cash controls over revenues collected from the Library’s JAMEX vending machines for copiers and printers. Specifically, we found the following:

- *Activity Logs Not Used and Reconciliation Not Performed – Activity logs showing the vending activity for each JAMEX vending machine were not used. Specifically, Library staff did not access the activity logs and clear logs when collecting cash from JAMEX vending machines. As a result, Library staff did not have basic information, such as how much money the change*

tubes held and how much money was collected, since the data was last cleared. Since activity logs were not obtained, collected funds were not reconciled and there was no way to determine if funds had been misappropriated.

- *Inconsistent Procedures* - Procedures for collecting and accounting for money collected from JAMEX vending machines at the Loussac library and branch libraries were different. For example, some locations collected the money from the JAMEX machines once every two weeks and other locations collected the money every week. In addition, we found no written procedures for collecting money from the JAMEX vending machines for any of the Library's branch locations.

b. **Recommendation.** The Library Director should ensure that amounts physically collected from each JAMEX machine be reconciled to vending activity reports that can be generated by each JAMEX machine. In addition, the Library Director should ensure that P&Ps for collecting, reconciling, and depositing revenues collected from the JAMEX machines be developed and implemented at all Library locations.

c. **Management Comments.** Management stated, "Management concurs with the audit finding and recommendations. Jamex reconciliation counters have been used since September 2016 with employees resetting the counters with each coin collection currently scheduled for every two weeks. Procedures for resetting the counters and balancing the Jamex machines are being written currently and are expected to be finished by December 16th. This will also include starting amounts for each machine to ensure reconciliation integrity. These procedures will also be introduced to the branches and adjusted as needed per location to best fit business models while still satisfying the requirements of P&P 24-1."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. Controls over Collecting Revenues from Coin Change Machines Needs Improvement.

- a. **Finding.** There was lack of cash controls over revenues collected from the Loussac Library’s coin change machines. Although the coin change machines are not capable of producing reports for reconciliation purposes, the coin change machines should contain \$500 in bills and coins for each machine at all times. However, Library staff only removed bills and did not remove coins from the machines. Since both bills and coins were not removed from the change machines, library staff could not determine if \$500 was in each machine. As a result, there was no positive assurance that correct amounts were collected, processed, and deposited from the coin change machines. Moreover, there was no positive assurance that machines contained a \$500 change fund and had not been misappropriated.

- b. **Recommendation.** The Library Director should ensure that policies and procedures for collecting, reconciling, and depositing revenues collected from the coin change machine are revised to include a full accounting of the change fund.

- c. **Management Comments.** Management stated, “Management concurs with the audit finding and recommendation. Without an automatic system to reconcile the coin machines, each coin collection will need to require a verified count of both coins and bills in the coin change machines verifying the \$500 fund. Procedures for the collecting, reconciling, and depositing revenues collected from the coin change machine are being revised to include a full accounting of the change fund. This is expected to be finished by December 16th and implemented within the Library system wherever a change machine is located. In addition, we will evaluate and determine the frequency of reconciling the coin change machine as this is not an automated process and requires dedicated staff time. Library staff preference would be to reconcile coin change once a quarter. Currently, our internal analysis showed that approximately 43% of funds deposited in 2016 for coin collecting goes to paying staff time to collecting and depositing from the machines. Verifying the coin cash machine each

time coin collection occurs will require further staff time. We will also maintain an Excel spreadsheet each time balancing coins and bills to maintain the \$500 amount.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on November 15, 2016.

Audit Staff:
Scott Lee