



County of Yolo

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- *Financial Leadership*
- *Budget & Financial Planning*
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- *Accounting & Financial Reporting*
- *Internal Audit*

Transmittal Letter

April 27, 2023

Diana Lopez, County Librarian
Yolo County Library
226 Buckeye St
Woodland, CA 95695

Re: Internal Control Cash Audit for the Yolo County Library

Dear Ms. Lopez:

The Division of Internal Audit performed an internal control cash audit of the Library Department for the period of November 1, 2021 to October 31, 2022 to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over cash.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to handling of cash, bank accounts, gift cards, system access, and documentation of procedures.

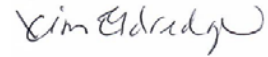
As required, in accordance with auditing standards and the County Audit Follow-up Policy, county management has responded to each finding and recommendation contained in our report. We will follow-up to verify that management implemented the corrective actions.

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In regard to auditor's independence, the Internal Audit Division reports administratively to the Chief Financial Officer, but functionally to the Board of Supervisors.

We thank the library management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Sincerely,



Kim Eldredge, CGAP
Audit Manager

Distribution

Chad Rinde, Chief Financial Officer
Gerardo Pinedo, Chief Administrative Officer
Sou Xiong, Treasury Manager
Lee Gerney, Chief Technology Officer
Yolo County Audit Subcommittee
Internal Audit Website
Audit File Project No. 2023-29

Yolo County Division of Internal Audit
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Audit No: 2023-29

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Detailed Findings and Recommendations

Background

The Yolo County Library Department provides public library services to the entire county except for the City of Woodland, which has city-funded public library services. The Library Department is divided into four major areas: Library Administration, Library Technical Services, Branch Libraries, and Archives/Records Center/Historical Collection.

Library Administration: Provides leadership, guidance, support, data collection, evaluation and direction for all internal functions and operation of the department. This includes human resources and fiscal management functions, such as, recruitment, budget management, grants administration, contract management, capital projects, and facilities maintenance.

Library Technical Services: Manages the Library's collection, materials, processing, cataloging, database maintenance, website support, computers and related equipment maintenance, and automated circulation system support.

Branch Libraries: Increase access to and utilization of library resources and programs for residents at eight locations in Yolo County. Library branches are located in Clarksburg, Davis, Esparto, Knights Landing, West Sacramento, Winters, and Yolo. A satellite branch is co-located at the South Davis Montgomery Elementary School. The Winters Community Library operates as a joint-use facility with Winters High School.

Archives/Records Center/Historical Collection: The Archives ensures the preservation of and access to historical records in Yolo County and is the official repository for records that have permanent legal, fiscal, administrative, or historical value. The Records Center ensures that the county's obligations for the storage, maintenance, and destruction of county records are met. The Historical Collection includes a collection of objects from the 1830s to the 1930s to illustrate the life for early county residents.

Our review tested the Library Department's cash operations to determine that controls are operating in accordance with the Yolo County Cash Accounting Manual, Government Code, and best practice.

Objective, Scope, and Methodology:

The objective of the review was to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over the handling of cash within the Library Department. Operational accountability is achieved when the cash operations operate effectively and efficiently, transactions are executed in accordance with laws, regulations and Board policies and reliable information is generated and reported.

The scope of our audit included the review of the revolving cash funds and cash equivalents for the period of November 1, 2021 to October 31, 2022. We did not review cash handling operations at the Clarksburg, Esparto, Knights Landing, and Yolo library branches due to low volume of collections at those locations. This report also does not include a full system review of the Sierra system (integrated library system).

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I. Revolving Cash Fund Accounts

Revolving funds are established by the Department of Financial Services for specific operational needs to facilitate certain expenditure and cash transactions throughout the county departments. The most common types of revolving funds are change funds, petty cash funds, and special purpose funds.

The Library Department has an authorized revolving cash fund totaling \$565 to be used as follows:

- a. Petty cash fund of \$35 at the Central Services division to reimburse for small dollar items and office supplies needed on an emergency basis.
- b. Change fund of \$530 to be used by the branches to make change for library fines, meeting room payments, merchandise sales (ear buds and flash drives), and fax/copy/print services.

The Library Department also has three separate bank accounts to allow library branches to deposit the collections remotely rather than making frequent trips to the county treasury.

Audit Objective/Methodology

To determine whether the revolving fund accounts agreed to the authorized accountable balance, handling of cash disbursements comply with county policy, and funds are adequately safeguarded.

To accomplish our objective, the following procedures were performed:

- Reviewed cash on-hand and agreed to the authorized accountable revolving cash fund balance on file with the Department of Financial Services
- Inquired with management and staff on their petty cash procedures

Based on the procedures performed, the revolving funds at the Central Services, Archives/Records Center, and the library branches (Davis, West Sacramento, and Winters) agreed to the accountable balance with the Department of Financial Services. No petty cash replenishments were made during the audit period. The department should review the petty cash fund and determine if the established amount of \$35 is still needed for department operations.

No exceptions noted.

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II. Cash Receipts

Cash refers to U.S. currency and coins, checks drawn on U.S. banks and written in U.S. dollar values including travelers, cashiers, and certified checks, money orders, credit card sales drafts, Automated Clearing House (ACH) payments, and wire transfers. All of these forms of payment are acceptable by the county. The Chief Financial Officer must grant approval to a department to collect cash on behalf of the county. Departments must follow general cash receipt procedures and recording of transactions in handling of all cash receipts as stated below:

- A cash receipt must be provided for all cash transactions received over the counter.
- Cash collections shall be summarized daily on a cash receipt journal showing date received, amount received, and revenue or other accounts to be credited.
- Cash receipts must be deposited in the county treasury or other authorized depository bank daily or when the amount on-hand exceeds a safe and reasonable threshold but no less frequently than weekly.
- A deposit transmittal form must accompany all cash receipts.
- Cash receipts that are transported from branch locations to headquarters for deposit must be maintained using a transmittal log or slip.
- Cash overages shall not be netted against cash shortages. Overages shall be deposited into the general ledger account and any shortages be listed on a log showing all relevant information including the date, amount, cashier, and an explanation for the shortage.
- Recording cash receipt transactions (cash register transactions, mail receipts, and credit cards) must be maintained and reconciled to the deposit.

Outside banking relationships must also be approved by the Chief Financial Officer to establish an outside banking relationship with a financial institution (bank). Individuals that have the authority to deal directly with the bank should adhere to the following general guidelines:

- All cash must be deposited in accordance with the cash receipts policy.
- A record must be kept of all cash receipts and disbursements. Deposit receipt must be obtained from the bank teller.
- All signature cards must be current.
- Cash in banks must be protected by FDIC insurance.
- Authorized use of the County tax identification number must be obtained in advance from the Chief Financial Officer.
- Outstanding checks must be monitored on a regular basis for stale dated checks.
- Bank reconciliation must be prepared monthly and available for review.

The Library Department has one collection area at each library branch and at the Archives/Records Center. The library branches reconcile their own collections and make the deposits into the outside bank accounts. The Archives/Records Center transfers the cash receipts to Central Services for further deposit into the county treasury.

Audit Objective/Methodology:

To determine that handling of cash receipts comply with county policy, funds are adequately safeguarded, and there is a separation of duties among employees handling and reconciling cash.

To accomplish our objective, the following procedures were performed:

- Reviewed the internal control questionnaire prepared by the department and evaluated that the internal controls were adequate
- Observed that the funds were properly safeguarded

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- Reviewed any pending deposit records and agreed to the general ledger
- Verified that monthly bank reconciliations were properly completed

Finding #1: Cash handling at the library branches

In the case of change funds, if a receipting location has more than one cashier, the change fund shall be broken down into sub-funds and each sub-fund assigned to a cashier in order to establish accountability. Funds shall be secured in separate bags or lock-boxes. Cash funds shall never be commingled and monies from one fund shall not be loaned to or used by another fund. Cashiers shall reconcile cash on-hand to the receipts and the accountable balance of the fund daily. The reconciliation shall be reviewed by an employee independent of the receipting function. On a periodic basis, a supervisor must verify that the receipts are used in sequential order and that all receipts are accounted for, including voided receipts. Voided receipts shall be validated by an independent person and retained for department records.

The library branches have one cash register at the circulation desk that is shared by all cashiers who work on a rotation schedule six to seven days a week. All payments are recorded in the cash register upon receipt. Payments for lost/damaged materials are also recorded in the Sierra system to credit the patron's account. Fees are waived in the Sierra system per Board's authorization for charges created in error, late fees, credits for reading books, and for patrons with financial hardship. The fees are also recorded into a fee waiver request form that is approved by the branch manager. Daily collections are reconciled by one of the senior staff and summarized on a monthly deposit worksheet. At the end of the month, the monthly deposit worksheet, cash register tapes, and fee waiver request forms are routed to Central Services for review and reconciliation.

The auditors reviewed internal controls over the cash handling at the library branches and noted the following exceptions:

- Cash registers are shared by all cashiers (4 to 20 cashiers). As such, accountability for the cash is not assigned to individuals but shared by all cashiers.
- Waived transactions from July to October 2022 totaled \$1,823, but waiver request forms were missing for \$411.

Sharing cash registers and lack of supporting documentation for waived transactions may cause errors to go unnoticed and provide an opportunity for misappropriation of funds.

Recommendation 1:

We recommend that the Library Department review their list of cashiers at the library branches and determine if the number of cashiers is needed for department operations. It is also recommended that the list of cashiers be noted by day on the monthly deposit worksheet. In addition, the library branches should review their process for waiving transactions in the Sierra system to ensure that waived transactions are reviewed by an independent person of the receipting function and supported by waiver request forms as required by the department's policy. (Priority 1 Issue – 60 days required corrective action)

Management Response 1

We have redesigned the waiver request form and emailed it to all library staff with a reminder that it must be completed for all waived transactions. We will edit the monthly deposit worksheets to include a listing of staff working on the register each day. (Anticipated Date of Completion – 6/28/2023)

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Finding #2: Accountability of collections at the Winters library branch

Departments receiving cash are responsible for maintaining security over the cash funds. Proper handling, adequate records, and physical security should be emphasized to each employee having access to or responsibility for handling cash. When cash is received by the customer, either a cash register recording is made or a pre-numbered cash receipt form is prepared. Cash receipts must be balanced at the end of each employee's shift. Daily cash register tapes must agree with the deposit transmittal form. All collections shall be deposited promptly and intact into the county treasury or authorized bank accounts.

The Winters library branch is mainly operated by a supervisor who receives back up from a school staff and six extra help employees. All employees handle cash payments at the circulation desk. The auditors reviewed the cash on-hand at the library branch on February 2, 2023 and agreed the pending deposits to the bank. The following was noted:

- Cash on-hand was \$18 more than the amount recorded on the monthly deposit worksheet.
- Cash collections in the amount of \$51 were retained from prior months collections and used by the branch as a change fund.
- Safe is accessible by all employees at the library branch.

Cash errors were resolved by the department prior to the issuance of this report.

Not maintaining accountability over cash collections may result in cash differences not identified on a timely basis and the loss of control to determine if payments were deposited in the bank.

Recommendation 2:

We recommend that a library manager from another branch performs a surprise cash count at the Winters library to verify the amount of cash on-hand and to ensure that the revolving fund transactions are authorized. In addition, retain a copy of the cash count sheet for audit purposes. (Priority 1 Issue – 60 days required corrective action)

Management Response 2

We will perform surprise cash counts and keep record of cash count sheets. (Anticipated Date of Completion – 6/28/2023)

Finding #3: Reconciliation of bank statements

Bank reconciliation must be prepared on a monthly basis, documented, and signed by the preparer and reviewer and unreconciled balances identified and resolved timely.

Central services reviews cash activity on the bank statements for each library branch. Regular bank reconciliations are not performed for the three bank accounts, only an annual aggregate bank reconciliation is submitted to the Department of Financial Services.

Not performing timely and proper reconciliation of bank statements may allow errors to go undetected and differences to go unresolved.

Recommendation 3:

We recommend that a bank reconciliation be prepared monthly as prescribed by the Yolo County Cash Accounting Manual. It is also recommended that the bank reconciliation be reviewed and signed by an employee independent of the cash handling process. (Priority 1 Issue – 60 days required corrective action)

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Management Response 3

We will begin preparing monthly bank reconciliations for our First Northern Bank accounts and have them reviewed by an employee independent of the cash handling process. (Anticipated Date of Completion – 6/28/2023)

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III. Other Cash Funds and Cash Equivalents

Cash equivalents; such as, gift certificates, gift cards, and bus passes may be acquired for use in grant funded or county programs. Approval and purpose of such acquisition must be on file. Departments are required to maintain an inventory for the cash equivalents showing the purchase date, card number, vendor name, amount and expiration (if applicable). Issuance of the inventory items must be documented and recipients must sign a receipt that the item was received. Total amount per recipient over \$600 within a calendar year must be reported to the Department of Financial Services.

The Library Department uses gift cards as incentives for some grant funded programs or events funded by the Friends of the Library groups. Gift cards are used to encourage participation for attending classes or as program prizes. Gift cards are purchased on an as needed basis and not maintained as inventory by the department. Purchases are pre-approved by the funding programs and reimbursement is obtained after the purchase.

Audit Objective/Methodology

To determine that the gift cards are maintained, documented, and agree to the department's records and that the client signed a receipt for possession of the gift card.

To accomplish our objective, the following procedures were performed:

- Inquired with the department on the gift cards on-hand and traced to the inventory logs
- Determined that the inventory was properly recorded in the general ledger
- Tested a sample of disbursements to determine compliance with county policy and procedures

Finding #4: Accountability over gift cards

Gift certificates and gift cards may be acquired for use in grant funded or county programs. Approval and purpose of such acquisition must be on file. Departments are required to maintain an inventory for each gift certificate and gift card showing the purchase date, card number, vendor name, amount and expiration (if applicable). Issuance of cards must be documented and recipients must sign a receipt that the card was received.

Gift cards are purchased and distributed by the library branches. The library branches use a control log to record the gift card distributions. The total amount of gift cards distributed during the audit period were 12 gift cards for the amount of \$315. The auditor reviewed the gift card records and noted the following:

- Gift card transactions had no information about the programs (e.g., flyer for the event, an email providing details of the program) to determine that the distributions were for an approved program.
- Eight gift card transactions were missing the participants name and the acknowledgement of receipt for the gift card.
- Three gift card transactions were missing the purchase date, card number, vendor name, and amount.

Not maintaining accountability over the gift card distributions creates the risk for misappropriation and/or a loss of accountability of the gift cards.

Recommendation 4:

We recommend that the Library Department develop a process to ensure that a signature acknowledgement is received from the participant at the time of receiving the gift card. In addition, that information about the purchase and program be available and retained for audit purposes. (Priority 1 Issue – 60 days required corrective action)

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Management Response 4

We have redesigned our gift card log and emailed it to all library staff with instructions to keep documentation of the program with the gift card log. We have also asked staff to contact the Fiscal Administrative Officer before purchasing gift cards to review the process and ensure compliance with the county's procedures. (Anticipated Date of Completion – 4/28/2023)

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IV. System Controls

According to Best Practice and the COSO framework of strong systems of control, departments are responsible for using appropriate systems to record and maintain detail of their accounts, including account activity, history of payments made, and outstanding balances. All documentation and records should be properly managed, maintained, and readily available for examination.

The Library Department provides access for books, informational technology, and other media to inform, entertain and inspire county residents. The department uses the Sierra system to record payments for lost/damaged materials and credits the patron's account. The Sierra system is an Integrated Library System (ILS) offered by Innovative Interfaces, Inc. The system is used to maintain customer data, track fines and fees, and hold the library catalog.

Audit Objective/Methodology

To review the system accounts associated with the cash handling process to ensure that the Library Department has adequate segregation of duties given the user's role and responsibilities.

To accomplish our objective, the following procedures were performed:

- Obtained a list of system administrators and users
- Compared the list of system administrators and users against the list of employees handling cash
- Obtained a general understanding of the user profile accounts

Finding #5: Access to the Sierra system

The auditors obtained a list of system users for the Sierra system. Access to the system is assigned to the library branches and not to individual users. All employees handling cash payments share the same branch user login to record payments to the patron accounts. The department does not know the full access permissions for each user login, thus potentially posing a segregation of duties issue with each user assignment.

Improper user access rights and permissions may result in information that is added, deleted, or changed without approval or authorization. Employees who have operational duties and responsibilities should not have the ability to delete or change financial transactions.

Recommendation 5:

We recommend that the Library Department review their list of users for the Sierra system and determine what the user access rights and permissions are and if the access is appropriate for the job being performed. Further, that the security and change control reports be available, actively monitored, logged, and reported accordingly. (Priority 1 Issue – 60 days required corrective action)

Management Response 5

We will review the access rights and permissions for the Sierra logins used for cash collections, determine which are appropriate for the job performed, and review security and change control reports. (Anticipated Date of Completion – 6/28/2023)

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V. County Policy and Procedures

The Yolo County Cash Accounting Manual prescribes uniform accounting procedures for county departments pertaining to cash collections, cash revolving funds, other cash funds, cash equivalents and cash losses in accordance with generally accepted accounting principles, laws & regulations, and county policies. County employees with cash handling functions are required to read the manual and become familiar with its contents. Individual departments may have more detailed procedures for each cash handling position.

Audit Objective/Methodology

To determine if procedures for cash handling confer with standards of internal control, best practice, and the Yolo County Cash Accounting Manual.

To accomplish our objective, the following procedures were performed:

- Reviewed the policy manuals and procedures for recommended essential components within a Cash Handling Policy
- Verified that the cash handling processes are documented

Finding #6: Written procedures

The Library Department has a manual that provides general guidelines on handling cash collections, preparing a deposit, and handling disbursements out of the petty cash fund. The department also has system procedures for waiving fees, recording transactions into the cash registers at the smaller library branches, and performing monthly cash reconciliations to the Sierra system. The auditors reviewed the manual, written procedures, and identified the following:

- Department cash handling manual includes outdated information.
- Written procedures for handling cash payments at the larger library branches (Davis, West Sacramento, and Winters), online payments, donations/reimbursements from the Friends of the Library groups, month-end reconciliations, bank accounts, and gift cards are not available.

Recommendation 6:

We recommend that the Library Department review its cash handling procedures and update the manual to include the following processes:

- Handling cash payments and reconciling and depositing daily collections
- Handling online payments
- Handling donations/reimbursements
- Performing end-of-month cash and bank reconciliations
- Handling gift cards

The procedures should be disseminated to all staff handling cash, gift cards, and bank accounts. (Priority 3 Issue – 180 days required corrective action)

Management Response 6

We will develop formalized procedures for daily and monthly cash receipts, and write and/or update procedures for the other areas identified. (Anticipated Date of Completion – 10/27/2023)

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VI. Priority Ranking Definitions

Auditors use their professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if a corrective action is not taken and the seriousness of the adverse impact that may result. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a. The quality of services department provides to the community;
- b. The accuracy and completeness of County books, records, or report;
- c. The safeguarding of County asset;
- d. The County's compliance with pertinent rules, regulations, or laws;
- e. The achievement of critical programmatic objectives or program outcomes; and/or,
- f. The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 60 days of report issuance.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance.