

**Internal Audit Report 2017-307**

**Riverside County Library System  
Follow-up Audit**

**Report Date: June 2, 2017**



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June 2, 2017

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**Subject: Internal Audit Report 2017-307: Riverside County Library System, Follow-up Audit**

Dear Mr. Field:

We have completed the first Follow-up Audit of Riverside County Library System. Our audit was limited to reviewing actions taken as of December 14, 2016, to correct the findings noted in our original audit report 2013-006 dated July 15, 2014.

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 reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusion.

The original audit report contained seven recommendations, all of which required implementation to help correct the reported findings. Based on the results of our audit, we found that of the seven recommendations:

- Two of the recommendations were implemented.
- One of the recommendations was partially implemented.
- Four of the recommendations were not implemented.

Details of the findings from the original audit and the status of the implementation of the recommendations are provided in this report. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2013-006 at [www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting/InternalAuditReports](http://www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting/InternalAuditReports) (Stylistic changes have been made to the original report findings to reduce the usage of acronyms.).

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We appreciate the cooperation and assistance provided by the staff of the Riverside County Library System during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA  
Interim Chief Internal Auditor

cc: Board of Supervisors  
Executive Office  
Grand Jury

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## Cash Handling

### Finding 1: Safeguarding of Assets

#### Segregation of Duties

Separating approval, custody, and reporting functions makes it difficult for one individual to perpetrate and conceal fraud, errors, or omissions. We observed multiple locations where one individual was assigned multiple or all these duties.

- Multiple individuals commingling their cashing transactions in a single cash drawer.
- Dual custody and chain of custody procedures were absent in three of seven libraries during the count of daily cash receipts.
- Cashiering staff had access to the safe or file cabinet key.
- Performing, reviewing, and approving reconciliations of cash transactions or balances or both.

Segregation of duties reduces the likelihood of theft or loss of county funds and increases individual accountability.

#### Reconciliations

Cash transactions require a series of reconciliations to ensure the prompt detection of fraud and errors. Reconciliations were not performed or were late, precluding prompt detection and correction of fraud and errors.

- Cashier reconciliations were not possible because multiple cashiers use the same cash drawer.
- Cash receipts from cashiers are not reconciled to site level transaction reports.
- Daily bank deposits not reconciled to daily site's receipts total.
- Bank deposit slips not reconciled to bank statement in a timely manner.
- Monthly bank reconciliations untimely for two of the three months reviewed.
- Cash register transaction tapes and balancing reports not reconciled.
- Co-mingling of county and foundation funds.

A reconciliation process is essential to detect and defer theft or loss of county funds.

#### Cash Receipts Security

Cash was left unsecured at branches, during transport, and at the Library Management Office.

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- Staff transported cash in unsealed envelopes from branches to the Library Management Office.
- Cash was left in an open cabinet in an unlocked room with the door ajar while staff performed library circulation tasks.
- A key to the file cabinet used to secure cash receipts and photocopier cash box was accessible by all site staff.
- A cash security key was kept in an unlocked drawer in a common area accessible to all library staff.
- Library branch deposits were left unsecured in a mail courier container after delivery to the LMO.
- Libraries were not immediately restrictively endorsing checks received.

Failure to ensure cash is properly secured may result in theft or loss of county funds.

**Timeliness of Deposits**

Library Management Office did not ensure either the timely transport or deposit of monies received in accordance with Auditor-Controller Standard Practice Manual Policy 303, *Receiving Payments Deposits of Monies and Applying Payments* (formerly SPM 705). This policy requires same business day deposit of collected monies.

- 71% (42 of 59) of the daily receipts were deposited late from October 1, 2012, through December 31, 2012.
- LMO did not require or enforce timely submission of branch receipts to the Riverside County Economic Development Agency County Library (Library).

The opportunity for theft or other loss increases when deposits are not made in a timely manner.

**Recommendation 1.1**

Library conduct training for all staff on basic cash handling procedures and ensure key duties are properly segregated at all county library locations.

**Current Status 1.1: Implemented**

Internal Audit reviewed the revised cash handling procedures Library uses to train the library staff as well as the PowerPoint developed to conduct the initial training. We reviewed the sign in sheets for staff attending the training which was conducted April 2014. According to Library officials, there was a representative from each of the libraries and training to other library staff was to be conducted by the circulation or branch managers at each library. Also, Library revised their procedures to ensure proper segregation of duties exists at all county library locations.



### **Recommendation 1.2**

Library ensure daily cash receipt and monthly bank statement reconciliations are performed.

#### **Current Status 1.2: Partially Implemented**

On a daily basis, cash, daily cash transaction reports, and Z tapes are delivered to Library staff where deposits are prepared for the next business day. In order to track deposits and record overages/shortages, Library created a deposit database. Reconciliations are prepared monthly to verify Riverside County Financial System (PeopleSoft), Union Bank statements and the deposit database are in agreement. The reconciliation of the library automation system transactions not recorded in the libraries have not been implemented.

### **Recommendation 1.3**

Library ensure all monies are secured and only accessible by key library personnel.

#### **Current Status 1.3: Not Implemented**

We conducted a surprise walk through of two of the libraries to determine whether all monies were secured as recommend. We found through observation that keys which access monies were not secured in the sites we visited. As such, this recommendation has not been implemented.

### **Recommendation 1.4**

Library ensure cash receipts are deposited on a daily basis or request an exemption from the Auditor-Controller's Office.

#### **Current Status 1.4: Implemented**

Library submitted a deposit exemption form to Auditor-Controller's Office, General Accounting Division (GAD) for branches to delay deposits under the \$25 threshold. Internal Audit confirmed with GAD that the form had been submitted requesting the exemption.

### **Recommendation 1.5**

Library conduct monitoring of all county libraries cash handling procedures to ensure compliance with the procedures.

#### **Current Status 1.5: Not Implemented**

Current staffing levels have delayed the implementation of all procedures for monitoring cash handling in the library automation system. The new deposit database is utilized to assist in identifying cash handling issues conveyed to branch librarians by the next business day. Library

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has hired an additional staff member to be able to monitor cash handling of the libraries. They believe this will allow for full implementation of this recommendation by the end of this fiscal year.

## **Non-Capital Assets**

### **Finding 2: Non-Capital Assets Not Reported Properly**

The PeopleSoft asset module (Asset Module) does not include all county library non-capitalized assets. This occurred because the Economic Development Agency (EDA) was not reporting all acquisitions to the Auditor-Controller though physical inventories were conducted. In comparing a sample of invoices for non-fixed assets purchased, to the inventory spreadsheet provided by the EDA, it was noted that 235 items could not be traced to the inventory report. For many items, we had no way to compare or trace the items on the invoices to the inventory report. Furthermore, the serial numbers for 11 (44%) out of 25 items identified on these invoices could not be traced to the inventory report.

Further, during our fieldwork, we identified the following:

- Four items with valid serial numbers duplicated on the inventory list. These duplicates had different asset tag numbers but the same description and serial number on the inventory list;
- Two items with the same serial number in the inventory record were assigned to two different libraries. Many of the asset tag numbers did not reconcile to the Asset Module.

We were unable to trace 235 items valued at \$29,003.07, (21%) of the \$138,184 non-capital assets identified on the invoices, to the inventory record. The Economic Development Agency is currently reviewing the inventory report and plans to reconcile the assets at the libraries to the Asset Module.

The EDA Information Technology assigned staff to perform the inventory and tag all non-capital assets identified as property of county library. This task was completed December 2012 utilizing an Excel spreadsheet, which we noted was formulated to round down the last three digits of the serial number, resulting in duplicated serial numbers on the inventory spreadsheet. The discrepancies in the inventory misrepresent the asset inventory value. It can also lead to misappropriation of the assets.

### **Recommendation 2.1**

Conduct a new inventory of all non-capital assets to ensure that all items are accounted for and properly tagged.

### **Current Status 2.1: Not Implemented**

Library responded that an inventory had been conducted and assets were tagged but did not provide verifiable proof that this recommendation had been implemented.



**Recommendation 2.2**

The inventory should be reconciled to the Asset Module and updated at least once per year.

**Current Status 2.2: Not Implemented**

The Library is in the process of removing assets from the asset module and sent to the county's Purchasing & Fleet Service's Department for surplus. These items remain listed as assets. As such, this recommendation is not implemented.