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Martin County Library System
Cash Handling
Audit Number: 2019-A-0007
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Summary

What We Did

We performed a cash¹ handling review at each of the Martin County Library System (“Library”) branch locations. The cash handling review resulted from an internal library incident report, prepared in April 2019, detailing a situation where the Blake Library could not account for \$84.00 cash, which was provided by Martin County.

What We Found

Generally, the Library’s existing control environment is effective and operating as designed; however, opportunities for improvement exist in the following areas:

Financial records maintained by the Library conflict with those maintained by Clerk’s Finance/Accounting division.

On November 12, 2019, a cash count was conducted at the Hoke Library in Jensen Beach. The cash count identified the following amounts:

Type	AMOUNT
Petty Cash	
Change Drawer	
Jamex - Printer	
Jamex - Copier	
Total	

On November 25, 2019, the Finance/Accounting division provided records documenting the Hoke Library had custody of _____ of County funds: a _____ difference². It appears the discrepancy is the result of how the Jamex machines are funded.

Safeguarding of assets need strengthening.

We identified weaknesses in the Library’s current method of safeguarding cash, including: (1) the change drawer, daily cash receipts and petty cash are maintained in a _____ that requires satisfying either a _____ ; however, multiple staff members have access _____ (2) after being locked in the _____ the change drawer, daily receipts and petty cash are not further _____ ;

¹ For our purposes “cash” includes currency, coins, checks and credit cards.

² On or about, May 10, 2019, Hoke Library management responded to our cash handling questionnaire reporting that it had _____ of County provided funds. Records produced by the Finance/Accounting division identified the branch having _____ : a _____ difference.

This report has been redacted pursuant to §119.071(2)(d), §119.071(3) and §281.301, Florida Statutes, due to findings involving physical security.

and, (3) the Hobe Sound Public Library, Elisabeth Lahti Library and Hoke Library each have envelopes containing cash designated for their respective Jamex machines.

Segregation of duties need strengthening.

Although weekly deposits are minimal, the Library’s current practice of allowing staff members to work out of a single cash drawer who subsequently perform the weekly cash reconciliation, does not promote proper segregation of duties. Moreover, it increases the risk associated with cash misappropriation and decreases staff accountability.

What We Recommend

We made seven recommendations that if implemented will strengthen the Library’s cash handling system of internal control by restricting unauthorized access to County, and Friends of the Library, funds; and, increasing accountability over monies received from the public.

On February 11, 2020, Library Management submitted its response to our recommendations. Contained therein, Management agreed with recommendations one through six; however, recommendation seven could not be implemented because Management states it cannot restrict the number of staff members accepting public payments.

Management’s responses have been included in our final report.

Martin County Clerk & Comptroller



The Florida Constitution established the clerk of the circuit court as the local constitutional officer who serves as the public trustee for the county. In addition to serving as the clerk to the courts, the clerk provides a county level system of checks and balances through services as the county comptroller, clerk to the board of county commissioners, guardian of public and official records, clerk to the value adjustment board and internal auditor of county funds.

Internal audit activity is established as a responsibility of the clerk of the circuit court by Florida Constitution Article VIII, §1, cl.(d) as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds.” The internal audit activity is administered on the government operations of the County Clerk, and its functional divisions, and the Martin County Board of County Commissioners, and its functional divisions, as specified in the State

Constitution, State Statutes and decisions and opinions of the State Judiciary.

Background

According to the publication *A History of the Martin County Library System (2007)*, the current library system traces its origins to a special meeting in November 1957. During this meeting the Martin County Library Association, an entity established by the Stuart Women’s Club, agreed to transfer the existing library land, building, books, furniture and fixtures, equipment and other contents to the Martin County Board of County Commissioners (“Martin County”).

Today the Library operates six branches: The Blake Library (*Administrative Library and Stuart Branch*); Hobe Sound Public Library; Hoke Library (*Jensen Beach*); Elisabeth Lahti Library (*Indiantown*); Peter and Julie Cummings Library (*Palm City*); and, Robert Morgade Library (*south Stuart*).

The Library receives public funding from the County and private funding from at least two organizations:

- Friends of the Martin County Library System (“Friends of the Library”): a non-profit organization supporting library programs, materials and equipment. It is a volunteer group operating in all six public libraries.
- Library Foundation of Martin County, Inc.: acquires and administers funds to enrich library services and facilities not met by public funding and to endow the library system for future generations.

Observations and Recommendations

Observation (1)

Financial records maintained by the Library are in conflict with those maintained by Clerk’s Finance/Accounting division.

Criteria

Martin County Library System, Administrative Directive Memo titled, Money Management (*Revised, October 2017*).

Internal Audit Review

The Library uses funds for change drawers, petty cash and Jamex machines. Jamex machines are used by patrons for printing and/or

copying materials. Our audit procedures included facilitating a cash count at each branch location then comparing the results to records maintained by the Clerk's Finance/Accounting division. Except for the Hoke Library, physical cash counts were consistent with records maintained by the Finance/Accounting division. Concerning the Hoke Library, we conducted a cash count on November 12, 2019, which identified the following:

Type	AMOUNT
Petty Cash	
Change Drawer	
Jamex - Printer	
Jamex - Copier	
Total	

On November 25, 2019, the Finance/Accounting division provided records documenting the Hoke Library had custody of _____ of County funds: a _____ difference². It appears the discrepancy is the result of how the Jamex machines are funded. Generally, each Library Manager described the following similar scenario:

- a) Initially, the County provided _____ to fund each of the Jamex machines (printer/copier).
- b) Subsequently, a decision was made where one of the Jamex machines would be funded by the Friends of the Library.
- c) Finally, in the summer of 2019, a decision was made to use County funds for the Jamex machine currently being funded with Friends of the Library monies.

Recommendations

- 1. Library Administration should review its records, in conjunction with those of the Clerk's Accounting/Finance division, to identify the _____ discrepancy.
- 2. Library Administration should review, and update where necessary, its Administrative Directive Memo titled, Money Management, to reflect the current amount of monies held in custody for Martin County.

Response

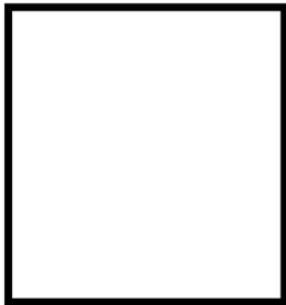
Management agreed with our recommendations acknowledging:

- i. After visiting the Elisabeth Lahti and the Hoke Library it determined the petty cash discrepancy was the result of their Jamex machines. The monies were returned to the Clerk’s Accounting/Finance division for proper handling.
- ii. It updated its “Money Management Memo” to accurately reflect petty cash funds being held at each branch location.

Cash Bucket – Blake Library



Petty cash and Jamex machine cash envelopes – Hoke Library



Observation (2)

Safeguarding of assets need strengthening.

Criteria

International Standards for the Professional Practice of Internal Auditing, Performance Standard 2130 - Control.

Performance Standard 2130, titled Control, requires the internal audit activity to evaluate the adequacy and effectiveness of control within the organization’s governance, operations and information systems regarding: (a) achievement of strategic objectives; (b) reliability and integrity of financial and operational information; (c) effectiveness and efficiency of operations and programs; (d) **safeguarding of assets** (*emphasis added*); and, (d) compliance with laws, regulations, policies, procedures, and contracts.

Internal Audit Review

On April 30, 2019, Blake Library staff prepared an incident report stating: “*Counting the money in the morning the [cash] drawer was dollars short. When verifying the bucket and other deposits I noticed the print control was also missing.*” As a result, we reviewed the cash¹ handling practices at each Library location. Our review identified similar practices at each branch location, including:

- a) Each night the change drawer, daily receipts and petty cash are locked in a ³. The is located in either the or a within internal work environment.

Additionally, at the Hobe Sound Public Library, the Elisabeth Lahti Library and the Hoke Library the has an

³ An exception is the Hobe Sound Public Library where at night the change drawer is locked

Key Rack – Cummings
Library



⁴ that is represented as being for the
Jamex machine.

- b) Access to the change drawer, daily receipts and petty cash requires satisfying either .
However, multiple staff members know .
Therefore, access to the cash does not appear to be restricted in any meaningful capacity.
- c) Each morning the change drawer is removed .
and placed in a .
During our visit these drawers were unlocked; however, staff was present.

Daily receipts, petty cash and the undistributed Jamex machine monies remain . The is locked during the day.

Moreover, Friends of the Library provided each branch with a petty cash fund and a credit card. These assets are used to supplement costs related to various Library programs. In addition to the petty cash and credit card, each location collects “book sale” money on behalf of the Friends of the Library. Although assets provided by, and collected on behalf of, Friends of the Library are not within the scope of our audit, in many instances these assets are secured in the same location(s) as County funds.

Recommendations

- 3. Library Administration should implement measures to restrict unauthorized access to County provided funds. Measures to consider include: (a) restricting access to , (b) using locking ; (c) using ; or, any combination thereof.
- 4. Library Administration should evaluate why the Hobe Sound Public Library, Elisabeth Lahti Library and Hoke Library have that is designated for their Jamex machines.

If applicable, Jamex machine funds should be returned to the original funding source for proper handling (*County or Friends of the Library*).

⁴ Hobe Sound Public Library ; Elisabeth Lahti Library ; and Hoke Library ().

5. Library Administration should inspect the _____ used to secure County and Friends of the Library funds to ensure they are structurally sound thus providing an adequate deterrent against theft.

Response

Management agreed with our recommendations acknowledging:

- i. It has restricted _____ to the Librarian and Branch Manager at the Blake Library, while _____ at the other locations are restricted to the Branch Manager.
- ii. Pending budgetary evaluation, expenditures for _____ are being considered for purchase.
- iii. Cash designated for Jamex machines has been returned to the Clerk's Accounting/Finance division for proper handling.

Observation (3)

Segregation of duties need strengthening.

Criteria

Martin County, Administrative Directed Policy (POL165).

Receiving Monies on behalf of the County. General Procedure states:

For each location receiving County funds, an individual should be designated to handle cash receipts, including the preparation of a receipt, a deposit slip or the transmittal form to Accounting.

Committee of Sponsoring Organizations of the Treadway Commission.

Internal Control—Integrated Framework: consists of 5 components: control environment, risk assessment, control activities, information and communication, and monitoring. Control activities are relevant to our discussion and include the policies and procedures established by management to mitigate risks associated with achieving strategic goals and objectives. Risk mitigation activities include segregating incompatible duties.

Internal Audit Review

The foundation of a good internal control system begins with proper segregation of duties. For any transaction, the following functions should be performed by separate individuals:

- a) **Authorization** (approval) of the transaction
- b) **Custody** (responsibility) of the asset associated with the transaction
- c) **Recording** (accounting) the transaction

Generally, cash collections are handled in a consistent manner at each branch:

- a) Staff members accept payments from the *public (late fees, fines, lost or stolen books, etc.)*
- b) Payments and change are processed from a single cash drawer
- c) Each week Library Administration generates a cash receipts report
- d) Cash collections are reconciled to the cash receipts report
 - i. Reconciliation is rotated between staff members
 - ii. Reconciliation is verified by a second staff member
- e) Weekly cash collections are between
- f) Cash collections are sent to Library Administration to be deposited

Weekly deposits are minimal; however, allowing staff members to work out of a single cash drawer, who also perform the weekly reconciliation, increases the risk associated with cash misappropriation while decreasing staff accountability.

When current operating practices (*current state*) conflict with an organization's policies/procedures, generally accepted practices or available good guidance (*criteria*), internal auditors are required to use due professional care when making recommendations. Due professional care includes evaluating the effort (*time, cost, expertise, etc.*) required to implement a recommendation against the potential benefits.

The following recommendations are the result of this evaluation.

Recommendations

- 6. Library Administration should implement daily cash reconciliations.
- 7. Library Administration should consider limiting the number of staff members who accept daily payments from the public. Restricting the number of cash handlers, in conjunction with daily reconciliations, enhances accountability.

Response

Management agreed with our recommendation concerning the implementation of daily cash reconciliations.

However, Management stated recommendation seven could not be implemented because it “cannot limit who receives cash.”

Audit Objectives and Scope

To assess if the Library has an adequate system of internal control that mitigates risk associated with cash misappropriation. We reviewed the Library’s current cash handling practices for compliance with established policies, procedures and available good guidance.

Audit Methodology

Audit **procedures** included, but were not limited to:

- Reviewing established policies and procedures
- Identifying good guidance publications
- Observation of cash counts
- Verification of cash provided by Friends of the Library
- Interviewing staff

The audit was planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our comments and conclusion based upon the audit objectives. This audit report is intended to provide management, and those charged with governance and oversight, with information to improve program performance and operations, reduce cost, facilitate decision making by parties with responsibility to oversee or initiate corrective action and contribute to public accountability. We believe that the evidence obtained provides a reasonable basis for our comments and conclusions based upon our stated objectives.

Acknowledgement

Internal Audit staff would like to extend our appreciation to the Clerk’s Finance/Accounting division and the Martin County Library System for the cooperation and courtesies extended to us in the completion of this audit.