CONTRA COSTA COUNTY LIBRARY COMMISSION
AGENDA ATTACHMENT 5

MEETING DATE: Thursday, January 28, 2010

AGENDA ITEM #: 11 A

ITEM: COUNTY AUDITOR'S REPORT AND LIBRARY'S RESPONSE

RECOMMENDED ACTION:

- Commissioners will review the findings of the County Auditor's Office and the Library's response.
October 13, 2009

TO: Anne Cain, County Librarian

FROM: Stephen J. Ybarra, Auditor-Controller
       Audit Staff: Sandi Bewley, Auditor

SUBJECT: Report on Examination of Financial Records and Procedures – County Library

EXECUTIVE SUMMARY

Management is responsible for establishing and maintaining a comprehensive system of internal control to ensure that assets of the County are protected from loss, theft, or misuse, and that transactions are executed and recorded in accordance with management’s authorizations. The role of the Internal Audit Division is to assist management by evaluating the system of internal control to determine if it is operating to achieve management’s objectives.

We examined the accounts, records, and procedures of the County Library (Library) for the period July 1, 2008, through June 30, 2009. The scope of our examination included the financial practices and procedures associated with the receipt and disbursement of money (as related to trust fund, check, and cash activity), equipment inventory, and employee compensation.

We planned and performed the necessary tests and procedures to determine if, with reasonable assurance within our scope, the following financial conditions existed:

- Assets were adequately safeguarded.
- Appropriate internal controls were in place and functional.
- Records were accurate and reliable.
- Statutory, contractual, and administrative requirements were followed.
Based on the results of our testing and procedures, we conclude that, in all material respects, those financial conditions existed with the exception of the following financial procedures that need improvement:

1. Strengthen segregation of duties and improve timeliness of deposits by adhering to Administrative Bulletin #205.1.

2. Establish subsidiary ledgers for trust funds 120700, 811300, and 845100 and perform reconciliations to the general ledger to ensure accuracy and reliability of records. In addition, report annually to the Board of Supervisors per the requirement of the Wilrus Children’s Library Trust.

3. Educate staff to follow policies and procedures in accordance with Administrative Bulletin #205.1 when issuing Lost or Damaged receipts and establish accountability of receipt books issued to the community branches.

4. Educate staff to follow policies and procedures in accordance with Administrative Bulletin #205.1 when issuing receipts for the rental of meeting rooms and other miscellaneous collections.

The following section includes the full text of the recommendations to assist management address the issues.

We wish to thank the staff of the County Library for their helpful and prompt assistance during the course of our examination.

In accordance with established policy, we request your written response to the recommendations in this report within 30 days.
RECOMMENDATIONS

**Recommendation 1:** Strengthen segregation of duties and improve timeliness of deposits by adhering to Administrative Bulletin #205.1.

**Condition:** Internal controls were not adequate to ensure segregation of duties when collecting cash. Administrative and statutory requirements were not being followed when depositing cash. The following exceptions were noted during our examination:

- In Administration, only one person currently receives checks, prepares the deposit slips, submits the EDP, and reconciles the deposits to the general ledger.

- Checks received at the community branches are not being restrictively endorsed at the time of receipt. Checks are endorsed when received in Administration and logged onto the check receipt log at that time.

- A mail list/transfer record is not being completed for checks received through the interoffice mail, U.S. mail, or when cash is transferred from one person to another.

- Five of seven deposits tested exceeded the recommended deposit limit of $500. Checks exceeding $500 were held for deposit up to eight business days. Four of those checks were in the amounts of $4,906.89, $8,000.00, $9,800.00 and $54,500.00.

**Criteria:** A critical element of sound internal controls is the segregation of certain duties. The principle of good separation of duties is that no employee should perform more than one of the following duties:

- money handling;

- transaction recording; and

- transaction authorization/reconciliation.

Administrative Bulletin #205.1 establishes uniform procedures and standards for receiving, safeguarding, and depositing cash.

- Section V, paragraph A2, states, "...Restrictive Endorsement - All negotiable instruments (non-cash form of payment such as checks) must be restrictively endorsed immediately upon acceptance using a stamp, which restricts payment for deposit only to the County Treasury...."
- Section V, paragraph B3, states, "...All checks received through the mail shall be recorded by the Mail Clerks (team of two Clerks recommended) on a Mail List/Transfer Record showing all relevant information, including the date, name of payer, amount, client account to be credited, and the general ledger account to be credited (if known). Photocopies of the checks received through the mail may be made in place of separately listing each check. Mail Clerks must retain a copy of the Mail List, including check photocopies, if the original is transferred to another person for preparation of receipts...."

- Section VII, paragraph A, states, "...Deposit Requirements – If practical, daily depositing is preferred. If deposits are not made daily, they shall be made when coin and currency exceed $250 or the total collections exceed $500.... Any deviation from this practice must be approved by the Auditor-Controller in writing...."

Effect: Weak internal controls, lack of segregation of duties, and non-compliance with administrative requirements lead to an increased risk of undetected errors, omissions, and misappropriation of monies.

Cause: Based on staff resources, management implemented what it considered to be the most effective assignment of duties by combining depositing and reconciling functions. Management believed the internal controls were adequate when receiving checks through the mail.

Suggested action: Management should realign the duties at Administration to obtain segregation of duties. A mail list/transfer record should be maintained for all checks received through interoffice and US mail. Checks should be endorsed at the time of receipt, not when received by the person preparing the deposit.
RECOMMENDATIONS (Continued)

Recommendation 2: Establish subsidiary ledgers for trust funds 120700, 811300, and 845100 and perform reconciliations to the general ledger to ensure accuracy and reliability of records. In addition, report annually to the Board of Supervisors per the requirement of the Wilruss Children’s Library Trust.

Condition: Internal controls were not adequate to ensure accurate or reliable records of activities for trust funds. We noted the following exceptions:

- The Department is not keeping subsidiary ledgers for trust funds 120700, 811300, and 845100 and is not able to reconcile the funds to the finance system. Trust fund activities are only being reviewed periodically through the Auditor’s finance system.

- The Library relies on the Treasurer to post quarterly interest income and investment expense to the general ledger. The Library also relies on the Treasurer to invest the unusable portion of the trusts as directed by the trust agreements. Reconciliations are not being performed to ensure investments are receiving appropriate interest per the investment agreements.

- The Wilruss Children’s Library Trust annual report to the Board of Supervisors was not prepared for fiscal year 2007-2008. This report is normally presented to the Board annually in February.

Criteria: Trust funds should have a subsidiary record that can identify the sources and uses of the monies flowing through the trust funds. Periodic reconciliation of a subsidiary ledger to the general ledger is an important control to ensure the accuracy and reliability of all records. Departments that use trust funds are responsible for ensuring that the County’s general ledger remains accurate. The County general ledger is the source of the County’s financial statements. The Wilruss Children’s Library Trust agreement requires an annual report to the Board of Supervisors to account for investments.

Effect: Internal controls are weak without a subsidiary record and reconciling to the general ledger. Without the periodic reconciliation and monitoring of the funds, there is the possibility of undetected errors, omissions, and misappropriation of monies, as well as inaccurate and unreliable records. There is also an increased risk for coding errors. Coding errors lead to general ledger accounts being misstated. In addition, there is the possibility of misstatement of the County’s financial records.

Cause: Based on staff resources, management implemented what it considered to be the most efficient handling of the process.
Suggested action: Designate an employee to create subsidiary ledgers and perform quarterly reconciliations to the general ledger. In addition, learn how the Treasurer's office invests funds and request supporting documentation when investments are made and interest is posted to the trust funds.

Management's response: Due to budget cuts and staff reassignments, the report to the Board of Supervisors was overlooked. Currently, the Department is working on the reports for fiscal years 2007-2008 and 2008-2009 and is scheduled to present the report to the Board of Supervisors in September 2009.
RECOMMENDATIONS (Continued)

Recommendation 3: Educate staff to follow policies and procedures in accordance with Administrative Bulletin #205.1 when issuing Lost or Damaged receipts and establish accountability of receipt books issued to the community branches.

Background: When a patron finds a library book that had previously been determined lost, he or she can bring the book back for a partial refund of payment. Print and Mail services prints a special triplicate receipt for the Library for this type of transaction which the Library calls a Lost or Damaged receipt. Library policy is to give the white copy of the receipt to the patron, the pink copy to remain in the receipt book, and the yellow copy sent to the branch that owned the book.

Condition: Administrative and statutory requirements were not followed when issuing Lost or Damaged receipts. In addition, internal controls were weak for the accountability and safeguarding of receipt books. The following exceptions were noted during our examination (of fifteen branches tested):

- Six branches had receipt books that could not be located at the time of audit. Two of the six branches later located the missing receipt book (the majority of the receipts were issued prior to 2006).

- On seven occasions, the receipt log incorrectly listed where a receipt book was assigned.

- Twelve branches did not completely fill out the receipts: they were missing the signature, address, date, or had blank pink copies.

- Three branches had receipts in the receipt books that appeared to be skipped. The receipts were not used or marked void. In one instance, the receipt had been filled out with all copies retained in the book, but the receipt was not marked void nor were copies of the receipts appropriately distributed.

- None of the branches were consistent when filing yellow receipt copies. Some branches filed yellow receipt copies loosely in receipt books that contained the corresponding pink copy. Other branches filed yellow receipt copies loosely in receipt books that did not belong to that receipt. All branches retained yellow receipt copies that should have been sent to the branch that owned the lost or damaged book.

- Seven branches had instances where either the wrong copy of the receipt was given to the patron or no receipt was given at all. Five branches had white or yellow receipt copies in the receipt book and had not retained the pink copy.
There were also instances of a photocopy of the receipt being stapled to a blank pink copy of the receipt because the pink copy was illegible.

- Fourteen branches had receipts voided in an incorrect manner. Receipts were marked void; however all three copies of the receipts were not retained in the receipt book. None of the branches visited had the supervisor’s signature on the voided receipts, a description on the receipt to explain the reason for the void, or the replacement receipt number documented on the voided receipt if replaced by a different receipt.

- Unused receipt books were not kept in a secure location with limited access. The active receipt book was not secured when the branch closed at the end of the day.

Criteria: Administrative Bulletin #205.1 establishes uniform procedures and standards for documenting the receipt of cash or checks.

Section V, paragraph E, states:

“.... 1. The following information shall be recorded either in a voided receipt register or on the voided receipt:

i. Reason for the void.
ii. Replacement receipt number (if applicable)
iii. Supervisor’s signature

2. All copies of voided receipts shall be marked “voided” and retained in or with the book and accounting copies. If the receipt is voided after the payee has left with the original receipt, the original replacement receipt shall be retained in or with the book and accounting copies of the voided receipt.

3. Accountability must be established for all used and unused receipts....”

Effect: When administrative and statutory requirements are not followed, accountability of receipts is not maintained. Lack of internal controls leads to unreliable records and assets being misstated. The Department is at risk of receipted monies being misappropriated and errors going undetected.

Cause: Staff was unaware of the policy and procedures for the voiding of receipts and the maintaining of accountability for both used and unused receipt books.
Suggested action: Management should educate staff on how to issue Lost or Damaged receipts and establish an accountability of receipt books. We recommend the following:

- Improve the receipt book log kept by the custodian in charge of issuing receipts to show the range of receipt numbers issued, number of books issued, the branch to where the receipt books are issued, and who received custody of the receipt books.

- Management should instruct staff at the community branches on the issuing, voiding, and maintaining of accountability of receipts.
RECOMMENDATIONS (Continued)

Recommendation 4: Educate staff to follow policies and procedures in accordance with Administrative Bulletin #205.1 when issuing receipts for the rental of meeting rooms and other miscellaneous collections.

Condition: Administrative and statutory requirements were not followed when issuing F receipts for meeting rooms and miscellaneous collections. In addition, internal controls were weak for the accountability and safeguarding of receipt books. The following exceptions were noted during our examination:

- Four out of five branches tested could account for F Receipt books, however only two of the four branches were actively using the receipt books.

- Two locations had office supply store receipts that were being issued for items such as lost library cards and meeting room rentals.

Criteria: The Library Policy and Procedure Manual states, “....Upon receipt of fee a Meeting Room Receipt (Form 6.11, Revised December 1992, County “F” Series Receipt Book) is written out upon receipt of fee. The original goes to the applicant, white and pink copies remain in the book....”

Administrative Bulletin #205.1 establishes uniform procedures and standards for receiving, safeguarding, and depositing cash. Section V, paragraph D, states, “....Receipt Forms. Generally receipts are issued on the County’s General Receipts “F” or “G.” However, cash register receipts, computer-generated receipts, or other receipts may be used if pre-approved in writing by the Auditor-Controller (stationary store receipts are not authorized)....”

Effect: When administrative and statutory requirements are not followed, receipts may be used improperly. The Department is at risk of receipted monies being misappropriated and errors going undetected.

Cause: Staff did not always adhere to the policies and procedures for the rental of meeting rooms. Staff was not aware using stationary store receipts was prohibited.

Suggested action: Management should enforce established policies and procedures when issuing receipts for the rental of meeting rooms. If cash is collected for a charge that can not be receipted through the Library’s automated receipting system, an “F” receipt should be issued.
## STATUS OF PRIOR AUDIT RECOMMENDATIONS

<table>
<thead>
<tr>
<th>RECOMMENDATIONS</th>
<th>STATUS</th>
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<tbody>
<tr>
<td>A. Improve the safeguarding of collections.</td>
<td>Implemented.</td>
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<tr>
<td>B. Deposit collections more timely, in accordance with County policy.</td>
<td>Partially Implemented.</td>
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<tr>
<td>C. Establish accountability at the time of receiving cash and checks.</td>
<td>Partially Implemented.</td>
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<tr>
<td>D. Reconcile the Library's checkbook to the monthly bank statement.</td>
<td>Implemented.</td>
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<tr>
<td>E. Improve the documentation for the disposal of the library's capital assets.</td>
<td>Implemented.</td>
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INTER-OFFICE MEMO
646-6423
Fax: 646-6461

Date: November 5, 2009
To: Stephen J. Ybara, Auditor-Controller
From: Anne Cain, County Librarian

SUBJECT: Response to Report on Examination of Financial Records and Procedures – County Library

Recommendation 1: Strengthen segregation of duties and improve timeliness of deposits by adhering to Administrative Bulletin #205.1

Suggested Action: Management should realign the duties at Administration to obtain segregation of duties. A mail list/transfer record should be maintained for all checks received through interoffice and US mail. Checks should be endorsed at the time of receipt, not when received by the person preparing the deposit.


Currently in Library Administration only one person receives checks, prepares the deposit slips, submits the Electronic Deposit Permit (EDP), and reconciles deposits to the General Ledger (GL). Duties will be realigned so that one person receives checks, one person prepares deposits, and another person prepares EDPs and reconciles to the GL.

Checks received at the community libraries have not consistently been restrictively endorsed at the time of receipt, particularly checks for donations, which are sent to Administration and have been endorsed when received in Administration. Library staff have been instructed to endorse all checks at the time of receipt. For donations received at libraries, new stamps have been ordered for endorsing donation checks when received prior to sending them to Administration.

A mail list/transfer log is now being maintained for checks and cash received through interoffice and U.S. mail, and when transferred from one person to another.

All checks are now being deposited on a timely basis, on the day or day after they are received.

Recommendation 2: Establish subsidiary ledgers for trust funds 120700, 811300, and 845100 and perform reconciliations to the general ledger to ensure accuracy and reliability of records. In addition, report annually to the Board of Supervisors per the requirement of the Wilruss Children’s Library Trust.
Suggested Action: Designate an employee to create subsidiary ledgers and perform quarterly reconciliations to the general ledger. In addition, learn how the Treasurer’s office invests funds and request supporting documentation when investments are made and interest is posted to the trust funds.


The Wilruess Trust report has previously been submitted to the Board of Supervisors annually in February following the fiscal year reported. The FY 2007-08 report was delayed due to staff turnover. A report for FY 2007-08 and 2008-09 was submitted to the Board of Supervisors in September 2009. In the future reports will be submitted annually in September following the fiscal year reported.

We are in the process of creating subsidiary ledgers for reconciling funds 120700 and 845100 to the GL, and will work with the Treasurer’s office to obtain all supporting documentation for trust investments and interest revenue.

Fund 811300 is not managed by the Library. The Auditor-Controller’s Office assumed management of this trust on July 1, 1992, to ensure compliance with provisions of the trust. Consequently, the Library receives no reports concerning this trust. During the “Examination of Miscellaneous Trust Funds” conducted by the Auditor in 2004, the lack of reconciliation of this fund was not found to be a reportable finding since the Library contacts the Auditor-Controller’s Office to find out how much interest has been earned and how much is available to spend. When the Library requests the Auditor-Controller’s Office to transfer money from the trust into the Library’s account to cover purchases, copies of invoices totaling the amount requested are submitted so the Auditor-Controller can ensure that purchases are in compliance with trust provisions.

Recommendation 3: Educate staff to follow policies and procedures in accordance with Administrative Bulletin #205.1 when issuing Lost or Damaged receipts and establish accountability of receipt books issued to the community branches.

Suggested Action: Management should educate staff on how to issue Lost or Damaged receipts and establish an accountability of receipt books. The following are recommended: Improve the receipt book log kept by the custodian in charge of issuing receipts to show the range of receipt numbers issued, number of books issued, and who received custody of the receipt books. Management should instruct staff at the community branches on the issuing, voiding, and maintaining of accountability of receipts.


The Library has implemented a procedure that authorizes only two employees to distribute receipt books. A receipt book log is kept that shows the receipt numbers distributed, date, to which library, name and signature of the person receiving, and initials of the person distributing.
Community Library Managers and Senior Clerks have been instructed on Lost & Damaged receipt issuance, void, and review procedures at the Monthly Managers and Senior Clerks meetings in October 2009. “Easy reference” instruction packets describing Lost & Damaged receipt procedures with supporting examples have been distributed to all libraries to be kept near the cash registers.

**Recommendation 4:** Educate staff to follow policies and procedures in accordance with Administrative Bulletin #205.1 when issuing receipts for the rental of meeting rooms and other miscellaneous collections.

**Suggested Action:** Management should enforce established policies and procedures when issuing receipts for the rental of meeting rooms. If cash is collected for a charge that cannot be receipted through the Library’s automated receipting system, an “F” receipt should be issued.

**Library Response:** Library Management concurs with Recommendation 4.

Community Library Managers and Senior Clerks have been instructed on meeting room “F” receipt issuance, void, and review procedures at the Monthly Managers and Senior Clerks meetings in October 2009. “Easy reference” instruction packets describing meeting room and miscellaneous receipt procedures with supporting examples have been distributed to all libraries, to be kept near the cash registers.