

EXECUTIVE SUMMARY

In this review, we examined accountability of reported cash collections, the adequacy of internal control procedures, and compliance with City and Library cash handling policies at the Winton Branch Library. We accounted for all reported cash receipts within the test period. The results of this review indicate deficiencies in internal control procedures.

- ◆ The Office of Public Integrity (OPI) noted that Winton Branch Library personnel do not adequately account for, enter in the cash register, and reconcile the manually written cash receipts for lost items to daily cash collections.
- ◆ Winton Library personnel do not reconcile daily cash register summaries to daily CARL (Colorado Alliance of Research Libraries) system transaction summaries.
- ◆ Library personnel waive and cancel fees without authorization and supporting documentation.

II. BACKGROUND, OBJECTIVES, AND SCOPE

A. Assignment

The Office of Public Integrity routinely examines systems and City administered cash collection processes as well as compliance with established policies. As part of our annual work program, we conducted an examination of cash receipts reported by the Winton Branch Library.

B. Background

The Winton Branch Library lends and receives library materials, provides access to the internet and personal computing needs, collects fines, and provides reference services to patrons. In conjunction with these responsibilities, the unit handles cash transactions resulting from fines, reserves, book sales, printing fees, lost books and audiovisual materials. For the fiscal year ended June 30, 2008, the Winton Branch Library reported revenue of \$32,446.88.

C. Objective and Scope

The objectives of the review were to assess the adequacy of internal controls over daily receipts, to determine the validity of reported cash receipts and to determine that library employees follow City and Library cash handling policies. The Office of Public Integrity examined all recorded cash transactions at the branch during the period July 1, 2007 through June 30, 2008. The review included an analysis of cash handling procedures and an examination of supporting documentation.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of this review indicate that Winton Library personnel generally appear to comply with City and Library cash handling policies. Additionally, we were able to determine that the branch has deposited all revenue recorded on the cash register. However, we noted several internal control deficiencies that require management attention.

A. Inadequate Recording Of Lost Item Cash Collections

When a patron loses a borrowed item, Library policy requires personnel to charge the patron a lost item fee. Upon payment of this fee to the Library, the Library requires personnel to enter the transaction amount in the cash register, to issue to the patron a numerically sequenced manual receipt document and to record the transaction on the CARL automated library system.

At the Winton Branch, OPI accounted for the numerical sequence of 66 manual receipt documents issued for lost item collections during the scope period. However, when we attempted to agree the amounts associated with these 66 manual receipt documents to daily deposits, we were unable to agree five of the 66 receipt documents, representing \$130.75 or 10% of the total of \$1,275.36 collected, to the daily cash register journal tapes.

This condition is caused by the following: Winton Branch personnel do not agree manual receipt documents issued to daily cash register summaries and deposits. They do not designate one cash register key exclusively to lost item payments. Winton Branch personnel enter these fees on the cash register using more than one cash register key including a key labeled lost fees and another labeled fines and collections.

By not properly segregating these lost item fees on the register, Winton Branch personnel obscure the identity of these fees. This creates a situation that prevents proper reconciliation of the documents that support cash transactions to the cash register documentation and bank deposits. Consequently, theft of cash transactions could occur.

City Cash Handling Policies require cash collection areas to properly identify and record cash collection transactions to ensure that a reliable accounting trail is established.

◆ Recommendation

To ensure that Library personnel record all lost item cash collections in the cash register, Winton Branch Library management should designate a cash register key used exclusively for lost items fees. For accuracy, management should agree the total of manual receipt documents issued for lost items to

the daily register readings and to the bank deposits. This will provide reconciliation between the manual receipt documents and the amount recorded on the daily cash register readings.

B. Library Personnel Do Not Reconcile The CARL System To Daily Cash Register Summaries

Winton Branch personnel enter cash collection transactions in both the cash register and the CARL system, which is the library automation system of material available for borrowing, material on loan to patrons, patron history and a history of cash transactions. Personnel enter transactions in both the cash register and into the CARL system because the two systems are not integrated. That is, the cash register provides summaries of cash activity only, while the CARL system provides information regarding material on loan and delinquent material outstanding by patron, fine amounts due, and all payment information.

Cash collection transactions entered in the cash register do not flow to the CARL system. As a result, personnel have the ability to enter cash collections into CARL, reflect fines and all other types of cash collections as paid (thereby reflecting patron accounts as current), however, not enter those transactions on the cash register. Library personnel only reconcile daily cash register summaries to daily deposits.

OPI noted cash collections recorded in the CARL system for the period of April 1, 2008 through June 30, 2008 of \$8,274.01 compared to actual deposits in the same period of \$8,128.85, for a net difference of \$145.16.

This condition creates the potential for abuse in that personnel have the ability to manipulate cash collections in the CARL system, not record them in the cash register and not include them in daily deposits.

◆ Recommendation

To substantiate reliance on reported cash collections, Library personnel should reconcile daily cash register summaries to daily CARL system transaction summaries.

C. Undocumented Fee Waivers And Cancellations

OPI examined all library fees recorded on the CARL system during the period April 1, 2008 through June 30, 2008. We noted that library personnel had cancelled and waived fees totaling \$2,163.47 during this period. OPI noted that supporting documentation existed for only \$142.45, or 7% of this amount.

The absence of documentation that supports proper fee waivers and cancellations and the lack of explanations of the underlying circumstances raise the possibility of unauthorized fee waivers and cancellations. Without this information and the written approval of branch management, it is possible for any employee to make a notation of waived and cancelled fees without authorization. A lack of supervisory review and documentation of appropriate approvals of fee waivers and cancellations can potentially lead to abuse and theft of cash collections.

◆ Recommendation

Library personnel should properly document the justification and approval of each waived or cancelled fee.

IV. DEPARTMENT RESPONSE

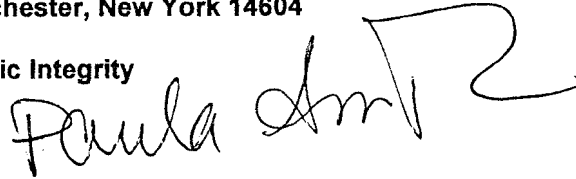
The response of the Library to this report begins on the next page.

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CITY OF ROCHESTER
OFFICE OF PUBLIC INTEGRITY

**Monroe County Library System
Rochester Public Library
115 South Avenue
Rochester, New York 14604**



To: Daniel Markese, City Office of Public Integrity

From: Paula Smith, Library Director

Date: December 12, 2008

Subject: Library Response to Winton Branch Library Cash Handling Audit

The Library has reviewed your report on the Winton Branch Library cash handling review and will implement the following recommended changes:

- 1. A cash register key will be used exclusively for lost item fees. On a daily basis we will reconcile the manual receipt document total with the daily register readings.**
- 2. All waived and cancelled fines will be approved by the person in charge and documented with justification. This will include fines waived/cancelled for Library staff.**
- 3. Linda Strassner, Library Finance Office Administrative Analyst and Cynthia Dana, MCLS Circulation Department Manager will conduct cash review and training sessions at each of the branches.**

With regards to reconciling cash register summaries to daily CARL system transaction summaries, we are working on developing a program in CARL which will create a simple daily report for each Branch Library and the Central Library. Initial beta tests with the Central Circulation Department have shown some issues but we are hopeful that we will be able to create a system that is accurate, inexpensive, simple, and does not take a lot of staff time to complete. We will provide monthly progress reports and, once completed, invite your staff to review the system to insure that the cash handling standards are met.

**xc. K. Loughran
P. Uttaro
D. Creek
C. Dana
L. Strassner**