



CITY AUDITOR'S OFFICE

Palomino Library IGA Compliance

February 9, 2012

AUDIT REPORT NO. 1207

CITY COUNCIL

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February 9, 2012

Honorable Mayor and Members of the City Council:

Enclosed is the audit report on *Palomino Library IGA Compliance*. In January 1990, the City entered into an intergovernmental agreement (IGA) with the Scottsdale Unified School District (SUSD) for a joint-use library located on the campus of Desert Mountain High School. The current agreement with SUSD is in effect through September 2012, with two additional 5-year extensions available. Overall, the City's share of Palomino's cost of operations has decreased from 70% to 59%, during the last three years.

This audit concludes that both parties generally comply with the IGA. However, the City has paid some costs owed by SUSD and the parties can improve their exchange of relevant financial information. Additionally, some mutually agreed-to changes to the IGA had little or no documentation, and further changes are warranted, such as requiring unresolved issues to be directed more timely to the Contract Administrators, establishing a maintenance standard and decreasing the notification period required for termination without cause.

We would like to thank Library staff for the cooperation we received throughout the course of this audit.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker, CPA, CFE
City Auditor

Audit Team:

Lisa Gurtler, CPA, CIA — Assistant City Auditor
Kyla Anderson, CIA — Senior Auditor

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EXECUTIVE SUMMARY

This audit of *Palomino Library IGA Compliance* was included on the Council-approved fiscal year (FY) 2011/12 Audit Plan to review compliance with contractual requirements for cost sharing with the Scottsdale Unified School District (SUSD).

In January 1990, the City entered into an intergovernmental agreement (IGA) with SUSD to construct, furnish, and staff the Palomino Library (Palomino) at SUSD's Desert Mountain High School. The IGA was amended and restated in August 1997 to address Palomino's ongoing maintenance and operation. SUSD is now generally responsible for facilities and ongoing maintenance, while the City is responsible for staffing, furniture and supplies. Although on high school grounds, Palomino is intended to serve the educational and recreational reading needs of students, faculty and the general public.

Library management estimated that Palomino had approximately 251,000 library patrons in FY 2010/11, of which approximately 70% were students. Library costs for that fiscal year totaled \$1,263,000; the City spent \$744,800 and SUSD reported \$518,200 as its costs. Over a period of three fiscal years, the City's share decreased from 70% down to 59% of estimated total costs for Palomino. These savings totaled about \$500,000 and were largely due to the City reducing library staff.

While both parties generally comply with the IGA, certain requirements could be met more effectively and some changes to the agreement are warranted. For example, the City billed SUSD for less than the actual library staff benefit rate and paid for maintenance of SUSD-owned anti-theft equipment. Relevant financial information, such as annual budgets and prior year actual costs, is not shared between the parties. Additionally, minimal or no documentation exists to substantiate some mutually agreed-to changes to the IGA related to staffing and computer equipment.

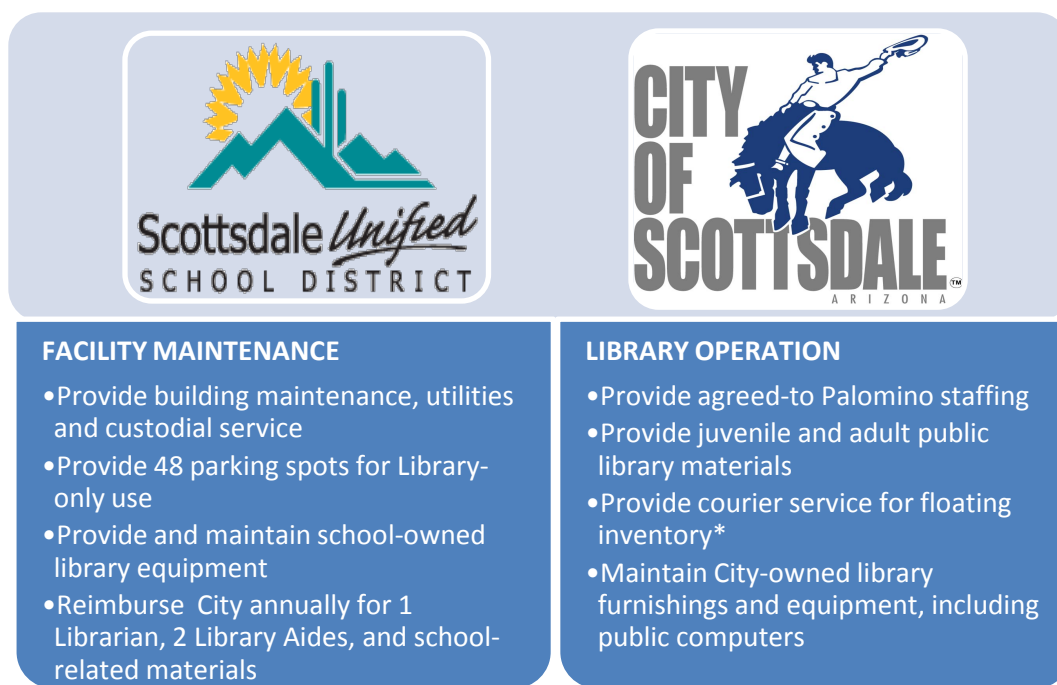
To streamline handling of performance related issues, changes could be made to the IGA, such as requiring unresolved issues to be directed more timely to the Contract Administrators, establishing a facility maintenance standard and decreasing the notification period required for termination without cause. As well, annually exchanging inventory lists could avoid potential disagreement over equipment ownership.

BACKGROUND

In January 1990, the City entered into an intergovernmental agreement (IGA) with the Scottsdale Unified School District (SUSD) to construct, furnish, and staff the Palomino Library (Palomino) at SUSD's Desert Mountain High School. SUSD was responsible for the design and construction of the facility, which subsequently opened in 1995, and the City was responsible to furnish and staff it. Located at 124th Street and Via Linda, Palomino is 5 to 6 miles from the City's Mustang and Arabian libraries. Although on high school grounds, Palomino is intended to serve the educational and recreational reading needs of students, faculty and the general public.

The IGA was amended and restated in August 1997 to address Palomino's ongoing maintenance and operation. As shown in Figure 1, SUSD is now generally responsible for facilities and ongoing maintenance, while the City is responsible for staffing, furniture and supplies. The City's Library Director and SUSD's Assistant Superintendent of Business Services serve as contract administrators, responsible for monitoring all aspects of the contract.¹

Figure 1. Responsibilities of Each Party



*Library customers are able to access materials from any of the City's 5 library branches. The City transports (floats) requested materials to the desired library via regularly scheduled couriers.

SOURCE: Auditor analysis of Amended and Restated Agreement No. 890001A and Amendment 1989-001-COS-A2.

¹ The former Assistant Superintendent of Business Services was promoted to District Superintendent effective December 2011, but continues to serve as the SUSD contract administrator.

The August 1997 restated agreement covered a 10-year period and was subsequently extended an additional 5 years to September 2012. Two additional 5-year extensions are available, and either party can terminate the agreement by giving 18 months prior written notice.

Palomino Use and Costs

Based on Palomino staff estimates, Palomino had approximately 251,000 library patrons in FY 2010/11, which was about 15% of total City library attendance. Further, based on monthly counts, Library management estimated that students represented approximately 70% of Palomino attendance during this year.²

On page 5, Table 1 summarizes the City's Palomino costs, excluding general administration (overhead) costs, and SUSD's reported Palomino costs. Over a period of three fiscal years, Palomino's annual operating costs have been reduced from \$1.8 million down to \$1.3 million. This largely reflects the City's cost reduction efforts, with its share of costs decreasing from \$1.25 million, or 70% of total costs, to approximately \$745,000, or 59%. During the same period, SUSD-reported costs have remained relatively flat at about \$520,000, accounting for 30% to 41% of total costs. However, this reported amount includes a \$370,000 rental rate charge that SUSD uses to estimate its repair and maintenance costs. This rental rate includes depreciation expense.

² While counting patrons once a month, Palomino staff estimate the number of students present based on observation.

Table 1. City and SUSD Costs for Palomino Library**City Costs**

	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11
Payroll related	\$805,479	\$1,070,853	\$611,692	\$595,263
Estimated library materials ¹	177,879	185,122	178,385	146,216
Equipment and other maintenance ²	74,373	25,546	26,135	23,164
Furnishings, copiers and phones	60,551	31,410	31,001	28,506
Other (supplies, software maintenance, etc.)	35,160	33,851	25,655	24,220
Courier service (vehicles, staff)	20,450	21,144	19,062	18,902
Property, liability, and Workers Comp	8,340	7,836	8,929	7,141
Total	\$1,182,232	\$1,375,762	\$900,859	\$843,412
Less SUSD reimbursements for staff and books	(112,737)	(126,031)	(103,266)	(98,598)
City's Net Expense	\$1,069,495	\$1,249,731	\$797,593	\$744,814
Proportion of Total Costs	67%	70%	60%	59%

SUSD Reported Costs

	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11
Facility repair and maintenance ³	\$371,292	\$370,309	\$371,421	\$373,043
Library staff reimbursement	98,197	99,895	98,598	98,598
Library books (includes reimbursements to City)	32,578	22,363	18,733	14,411
Utilities	21,828	22,811	21,699	20,077
Estimated district-level library purchases ⁴	2,291	14,247	9,483	10,552
Parking repair and maintenance	1,584	1,584	1,584	1,584
SUSD Expense	\$527,770	\$531,209	\$521,518	\$518,265
Proportion of Total Costs	33%	30%	40%	41%
Total Costs	\$1,597,265	\$1,780,940	\$1,319,111	\$1,263,079
	100%	100%	100%	100%

¹ Library management's estimate based on 15% of total City library materials (i.e., books, DVD's, CD's).

² The FY 2007/08 amount includes the City's purchase of two self check-out machines.

³ SUSD calculated this cost based on its hourly rental rate of \$.012 per square foot per hour that is charged for nonprofit use of district facilities, reduced by utility costs that the IGA requires SUSD to pay. Palomino has 18,000 square feet and is open 1,820 hours per year when Desert Mountain High School is not in session.

⁴ SUSD estimated that 9% of district-level library books and equipment purchases are for Palomino.

SOURCE: City costs are from the City's General Ledger Detail Report by Cost Center or estimated by the Sr. Management Analyst, Sr. Account Specialist and Facilities Management Specialist. SUSD costs were provided by the SUSD Accounting Manager.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of the City's *Palomino Library Intergovernmental Agreement* with the Scottsdale Unified School District (SUSD) was included on the FY 2011/12 City Council-approved Audit Plan to review compliance with contractual cost-sharing requirements. The audit scope included the current Palomino Library IGA, effective August 18, 1997 (No. 890001A), and amendment effective August 21, 2007 (No. 1989-001-COS-A2).

To gain an understanding of the IGA, we reviewed the original agreement (No. 890001) dated January 23, 1990, and the restated agreement and subsequent amendment. In addition, we:

- Interviewed the City and SUSD Contract Administrators, who currently are the City's Interim Library Director and the SUSD Superintendent.
- Interviewed the Library's Sr. Management Analyst, Finance & Accounting Division's staff including an Accounting Coordinator, Accountant and Sr. Account Specialist, and the SUSD Accounting Manager.
- Toured the Palomino Library facility with the Library Branch Manager and portions of the Desert Mountain High School facility with the school's Principal.
- Reviewed Administrative Regulations 215, *Contract Administration* and 285, *Signature Authority*.

To test the City and SUSD compliance with the current IGA, we:

- Interviewed Palomino and SUSD staff to inquire about any issues of non-compliance.
- Analyzed related expenses and revenue recorded by the City.
- Obtained and analyzed SUSD-reported Palomino costs.
- Compared City-provided staff positions to IGA requirements and analyzed the courier services to determine if it could be reduced.
- Reviewed the accuracy of City billings to SUSD for staff and library materials and the timeliness of SUSD payments.
- Compared existing library equipment to lists included in the original IGA and prepared by City staff for City-purchased assets.
- Tested Palomino library materials, such as books, DVDs, CDs and VHS tapes, to determine if they were marked with the correct ownership.

In addition, we asked City staff to estimate the cost of maintaining Palomino at the same standard as other City libraries and compared that to SUSD's reported costs.

While both parties generally comply with the IGA, certain improvements can be made, including billing all allowed costs to SUSD, sharing relevant financial information, and documenting mutually agreed-to changes. Some additional changes to the agreement are warranted, such as requiring unresolved issues to be timely directed to the Contract Administrators, establishing a facility maintenance standard and decreasing the notification

period required for termination without cause.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from November 2011 to January 2012, with Lisa Gurtler and Kyla Anderson conducting the work.

FINDINGS AND ANALYSIS

1. The City paid some SUSD-owed costs, and contract compliance can be improved.

The City billed SUSD for less than actual costs for library staff benefits and paid for maintenance of SUSD-owned anti-theft equipment. Relevant financial information, such as annual budgets and prior year actual costs, is not shared between the parties. Additionally, some mutually agreed-to staffing and equipment changes that affect the IGA had little or no documentation.

- A. The City has paid about \$35,000 of expenses that the IGA attributes to SUSD.
 - The IGA's Section 6.2 states that SUSD will reimburse the City for one Librarian and two Library Aide positions based on 69.2% of the mid-point salary range plus benefits. City staff has been calculating the benefit costs at 22.5% of that salary although actual benefits ranged from 23% to 43%. By using actual benefits, the City would have recovered an additional \$28,000 during the last 4 years.
 - The IGA's Section 7.1 states that SUSD is responsible for maintenance of the library anti-theft equipment, which is owned by SUSD. However, the City has paid this annual expense since FY 2007/08, a total of more than \$7,000.
- B. According to Library management, annual operating budgets are not exchanged between the parties, but funding has been discussed in general terms. IGA Section 11.1 states the City and SUSD management will meet to discuss their Palomino budgets to ensure continued contract performance. Additionally, information on actual costs is not exchanged, but could be helpful in evaluating each party's costs and benefits associated with the IGA.

Without an exchange of financial information, the parties may not be aware of potential contract or resource issues that need to be addressed.

- C. The City's Contract Administrator has maintained limited documentation of mutual agreement on changes made to the staffing levels and an SUSD-provided computer lab. Written documentation helps ensure both parties acknowledge changes in agreement terms, and it also assists with transitioning historical knowledge to new staff.
 - IGA Section 6.1 specifies the agreed-to Palomino staff positions, but as shown in Table 2, the City generally provided more staffing than the requirements. For example, in fiscal years 2007/08 and 2008/09, the Librarian and Library Assistant Supervisor positions were staffed at a higher level than the IGA specifies. Conversely, the City did not provide an IGA-required Security Guard.

Library management stated the differences were mutually agreed to by both parties. Additionally, the SUSD Superintendent stated he was aware of the unstaffed security guard position, but it was not needed. However, there was no documentation of agreed-to staffing adjustments. Without having the agreement of both parties formalized, it appears as though the City was not in compliance with the IGA. In aggregate though, the City spent approximately \$164,000 in FY 2007/08 and \$212,000 in FY 2008/09 for staffing at higher levels than specified in the IGA.

Table 2. Palomino Staffing Trend

Position title (IGA requirement)	Staff FTEs			
	FY 2007/08	FY 2008/09	FY 2009/10*	FY 2010/11*
Librarian (2 full-time*)	3.7	4.0	3.1	3.7
Library Aide (3 full-time, 2 part-time*)	3.8	4.0	3.5	3.0
Library Assistant (2 full-time)	2.0	2.0	2.1	2.1
Library Asst Supervisor	1.9	2.0	1.0	1.0
Library Coordinator, Senior (1 full-time)	0.8	1.0	0.5	-
Library Monitor	0.6	0.7	0.3	0.5
Library Page (4 part-time)	1.5	2.4	1.8	2.2
Security Guard (1 full-time)	-	-	-	-
Unidentified title	0.6	-	-	-
Total FTE	14.9	16.1	12.3	12.5

* Effective in July 2009, the City and SUSD agreed to 10 FTEs, with one Librarian and two Library Aides specified.

SOURCE: City Payroll reports, IGA Section 6.1 and July 2009 Library Director letter to SUSD Contract Administrator.

In July 2009, the former Library Director issued a memo to the SUSD's Contract Administrator documenting a mutual agreement that FY 2009/10 staffing would total 10 FTEs, with one Librarian and two Library Aides as the only specified positions. However, in FY 2009/10 and 2010/11, the City actually staffed Palomino with more than 12 FTEs, as shown in Table 2. Again, Library management indicated the changes were mutually agreed upon, but not documented. As a result, it appears the City spent approximately \$119,000 in FY 2009/10 and \$123,000 in FY 2010/11 more than required on Palomino staffing.

- IGA Section 5.2 indicates SUSD will continually maintain a computer lab in a Palomino classroom, but this lab has been removed. Library management indicated these computers were removed in 2004, and they do not see a need for them as the City provides computers for public use. Documentation was not maintained regarding this decision, and the IGA was not amended.

Recommendation:

The Community Services Executive Director and the Interim Library Director should ensure that:

- A. Future staff billings are calculated using actual benefit rates and future maintenance invoices for SUSD anti-theft equipment are directed to SUSD.
- B. An annual meeting is held between the Contract Administrators to discuss IGA-related matters, such as budget forecasts and actual costs, staffing levels, and other requirements.
- C. Staffing is maintained in compliance with the IGA unless changes are documented as mutual agreement. In particular, ensure the Contract Administrator complies with the AR 215 - *Contract Administration* requirement to maintain a contract file of meeting notes and related documentation. Appropriate documentation would include correspondence between the parties regarding changes to the agreement terms.

2. Changes to the IGA could improve efficiencies and contract performance.

Certain changes to the IGA could streamline IGA terms and handling of performance related issues. Also, annually exchanging inventory lists could avoid potential disagreement over equipment ownership.

A. Section 10.2 of the IGA states the school principal has final authority regarding library maintenance policies; however, the following SUSD maintenance items have not been satisfactorily resolved:

- *Excessive air conditioning* - While the temperature in Palomino's public areas was comfortable, we noted the administration area was only 62 degrees. According to Palomino management, this situation has existed for at least four years.
- *Non-enforcement of restricted library parking* - According to Palomino management, the library-designated parking spaces are frequently used by students or SUSD staff and not available for the general public. While at Palomino, we observed the designated library parking spots were full even though most of the library customers appeared to be students.
- *Worn carpeting* - The carpeting in Palomino's classrooms was rippled and had holes and tears, some of which were taped. Library management stated that this issue had been discussed with various school and SUSD staff for about four years. The carpet was recently replaced during the December 2011 holiday break.
- *Dirty windows* - The floor-to-ceiling windows on Palomino's north side were noticeably clouded with a film of dirt and cobwebs. Additionally, at least one window's sun protection was peeling. Palomino management estimated that the windows have not been cleaned for more than a year.
- *Unkempt public restrooms* - In a library restroom, the floor and sink were littered with used paper towels. The Palomino Branch Manager stated this is a frequent occurrence and, as a result of customer complaints, litter is often cleaned up by Palomino staff.

Palomino and school management indicated that Palomino staff typically contact the school principal or other school-level department management when there are maintenance or other contract-related issues. Based on our discussion with the district-level Contract Administrator, he only recently became aware of some of these issues so that he could help resolve them.

B. The IGA does not clarify the standards to which Palomino should be maintained, i.e., at a level similar to other City libraries or to SUSD standards. Based on our tour of the Desert Mountain High School, classroom carpeting and cafeteria windows appeared to be in the same condition as Palomino's.

As shown in Table 3, City staff estimates it would cost about \$181,000 annually to maintain Palomino at the same standard as other City libraries. For comparison, SUSD's estimated maintenance costs are approximately \$161,000 annually.³

³ Reported facility repair and maintenance costs include \$229,000 in depreciation expense, which is excluded here to be more comparative to the City's estimated direct costs.

Table 3. Estimated Annual City Expense to Maintain Palomino Facility

Cost	Estimated Annual Cost
Building maintenance (including utilities and custodial services)*	\$167,040
Landscaping service	4,750
Security system maintenance and replacement	8,000
Parking lot maintenance (48 spots)	1,490
Total Estimated Maintenance Expense	\$181,280

* Estimate based on 18,000 square feet at \$9.28 per square foot.

SOURCE: Estimates provided by the City's Facility Maintenance, Parks & Recreation, Municipal Security, and Street Operations departments.

- C. In the current IGA, there is a 'termination without cause' clause that allows each party to end the agreement for any reason provided they give an 18-month written notice.⁴ During the last two budget years, City staff evaluated withdrawing from the Palomino IGA as a cost saving effort. Based on the IGA terms, had the City Council not decided to continue the City's participation in operating Palomino, the City would have had to provide 18-months notice. Thus, savings would not have been realized until the fiscal year after the one being budgeted. While transition time would be needed if the agreement was ever terminated, a shorter period such as three months should be sufficient and would allow more flexibility in periods of sudden economic downturn as has recently been experienced. Library management has indicated their intention to propose a shorter 'termination without cause' notification period for the IGA.
- D. Palomino management maintains a comprehensive list of City-provided equipment; however, they have not requested an inventory of SUSD-provided equipment since 1997. The IGA's Section 4.3 allows the parties to exchange inventory lists, but according to Library management neither party has requested this. Regular inventory reconciliations between the parties can avoid potential disagreement over equipment ownership and ensure compliance with IGA provisions.

Recommendation:

The Community Services Executive Director and Interim Library Director should revise the IGA to:

- A. Direct unresolved contract issues to the Contract Administrators in a timely manner for final resolution.
- B. Establish the standards to which Palomino will be maintained. If the standard is to be equivalent to other City libraries, consider whether City facilities management should be involved.

⁴ The IGA also includes a 'termination for cause' clause which allows termination for a default or breach after a 45-day written notice period.

- C. Provide additional flexibility by reducing the length of time required to terminate the agreement without cause.
- D. Require an annual exchange of equipment inventory lists.

MANAGEMENT ACTION PLAN

1. The City paid some SUSD-owed costs, and contract compliance can be improved.

Recommendations:

The Community Services Executive Director and the Interim Library Director should ensure that:

- A. Future staff billings are calculated using actual benefit rates and future maintenance invoices for SUSD anti-theft equipment are directed to SUSD.
- B. An annual meeting is held between the Contract Administrators to discuss IGA-related matters, such as budget forecasts and actual costs, staffing levels, and other requirements.
- C. Staffing is maintained in compliance with the IGA unless changes are documented as mutual agreement. In particular, ensure the Contract Administrator complies with the AR 215 - *Contract Administration* requirement to maintain a contract file of meeting notes and related documentation. Appropriate documentation would include correspondence between the parties regarding changes to the agreement terms.

MANAGEMENT RESPONSE:

We agree with the recommendations.

PROPOSED RESOLUTION:

The above recommendations will be incorporated into the newly revised Palomino Library IGA.

RESPONSIBLE PARTY:

Community Services Executive Director and the Interim Library Director will work with Assistant City Attorney to create the revised Palomino Library IGA.

COMPLETED BY:

May 31, 2012

2. Changes to the IGA could improve efficiencies and contract performance.

Recommendations:

The Community Services Executive Director and Interim Library Director should revise the IGA to:

- A. Direct unresolved contract issues to the Contract Administrators in a timely manner for final resolution.
- B. Establish the standards to which Palomino will be maintained. If the standard is to be equivalent to other City libraries, consider whether City facilities management should be involved.
- C. Provide additional flexibility by reducing the length of time required to terminate the agreement without cause.
- D. Require an annual exchange of equipment inventory lists.

MANAGEMENT RESPONSE:

We agree with the recommendations.

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The above recommendations will be incorporated into the newly revised Palomino Library IGA.

RESPONSIBLE PARTY:

Community Services Executive Director and the Interim Library Director will work with Assistant City Attorney to create the revised Palomino Library IGA.

COMPLETED BY:

May 31, 2012

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