



CITY AUDITOR'S OFFICE

Library Business Operations

May 7, 2015

AUDIT REPORT NO. 1506

[July 8, 2015: A sentence was corrected in Finding 2 B.4 on page 18 to clarify that the Library has not been representing cash donations as tax deductible.]

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Vice Mayor Linda Milhaven
Guy Phillips
David N. Smith



May 7, 2015

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Library Business Operations*, which was included on the Council-approved FY 2014/15 Audit Plan.

The Scottsdale Public Library System (Library), within the Community Services Division, operates five branch locations throughout the City. In addition to serving Scottsdale residents, the Library is available to residents of Maricopa County, as well as to non-residents that pay an annual fee.

This audit found that Library resource management does not appear to maximize the public benefit. The Library materials inventory is not periodically verified and the catalog system is not accurate regarding the availability of library materials. Also, the allocation of branch staffing is not established through specific service objectives, and three branches have restricted the general public use of their public computer rooms. Library cash handling procedures do not ensure accuracy and minimize the risk of loss or theft, and the accounts receivable practices continue to need improvement. Stronger information technology controls are needed to ensure the confidentiality, accuracy and integrity of the Library's information systems.

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

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Lai Cluff - Senior Auditor
Cathleen Davis, CIA - Senior Auditor
Brad Hubert - Internal Auditor

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EXECUTIVE SUMMARY

This audit of *Library Business Operations* was included on the Council-approved FY 2014/15 Audit Plan to review the Library system's management controls over its business processes and operations.

The Scottsdale Public Library System (Library), within the Community Services Division, operates five branch locations throughout the City. The Library has a total operating budget of \$9.4 million for FY 2014/15 and staffs about 117 full-time equivalent positions. In addition to serving Scottsdale residents, the Library is available to residents of Maricopa County, as well as to non-residents that pay an annual fee.

Our audit found that Library resource management does not appear to maximize the public benefit. The Library materials inventory is not periodically verified and the catalog system is not accurate regarding the availability of library materials, which in total we estimate to be valued between \$12.5 and \$14.6 million. While a substantial amount of items are missing or lost each year, the Library does not perform periodic physical inventory counts of the materials that should be available at the branches. Also, the allocation of branch staffing is not established through specific service objectives such as demand for library services as shown in library material circulation or visitor counts. Furthermore, three branches have restricted the general public use of their public computer rooms without an ongoing reason to do so.

Additionally, Library cash handling procedures do not ensure accuracy and minimize the risk of loss or theft. Daily cash receipts are not accurately and promptly reconciled to the Library's information system that tracks patron accounts. Also, the Library's cashiering practices are not effectively implemented nor consistently followed, and physical controls to safeguard cash need to be strengthened. Further, Library Shop cash receipts received through "honor boxes" do not allow for souvenir inventory management.

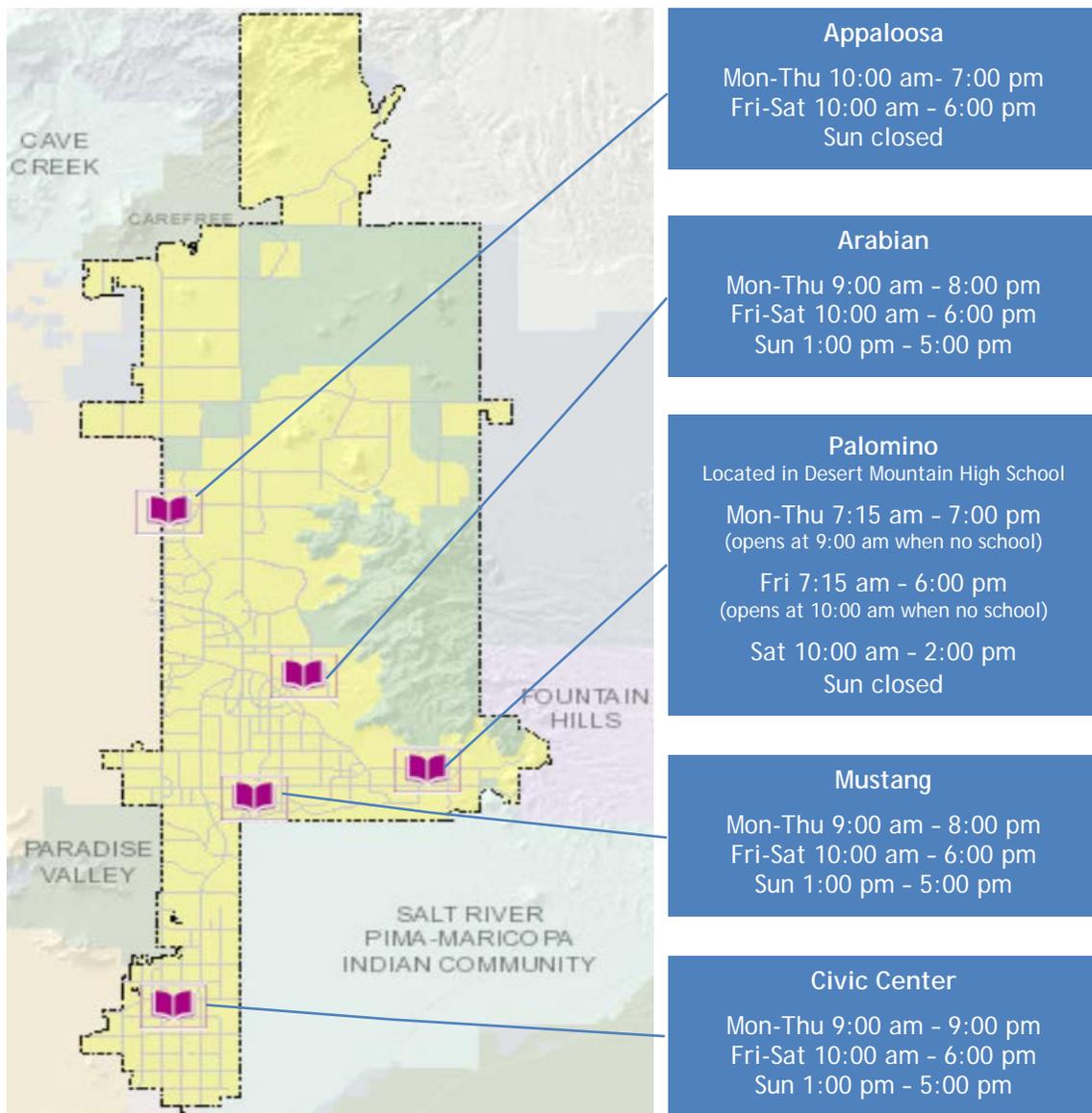
The Library's accounts receivable practices need improvement. Certain policies and procedures relating to fines and fees are not consistently applied, and some related practices, such as grace periods, have not been submitted for Council approval. Further, prior audit recommendations to improve Library accounts receivable and cash handling practices have not yet been implemented.

Finally, stronger information technology controls are needed to ensure the confidentiality, accuracy and integrity of the Library's information systems. Basic information technology security practices have not been implemented as the Library does not issue individual login credentials to each authorized user, and the shared credentials are not regularly changed and are readily accessible. Also, the Library does not ensure proper records retention for accountability and legal compliance purposes. Further, the Library maintains its own network and applications on a separate domain and servers, independent of the City's network. This is inefficient and has not been effective for establishing adequate security over the Library's information systems.

BACKGROUND

The Scottsdale Public Library System (Library), within the Community Services Division, operates five branch locations throughout the City. Within a total operating budget of \$9.4 million in FY 2014/15, the Library staffs about 117 full-time equivalent positions. As well, this budget includes \$881,000 for purchasing library materials. Besides serving Scottsdale residents, the Library is available to residents of Maricopa County, as well as to non-residents that pay an annual fee.

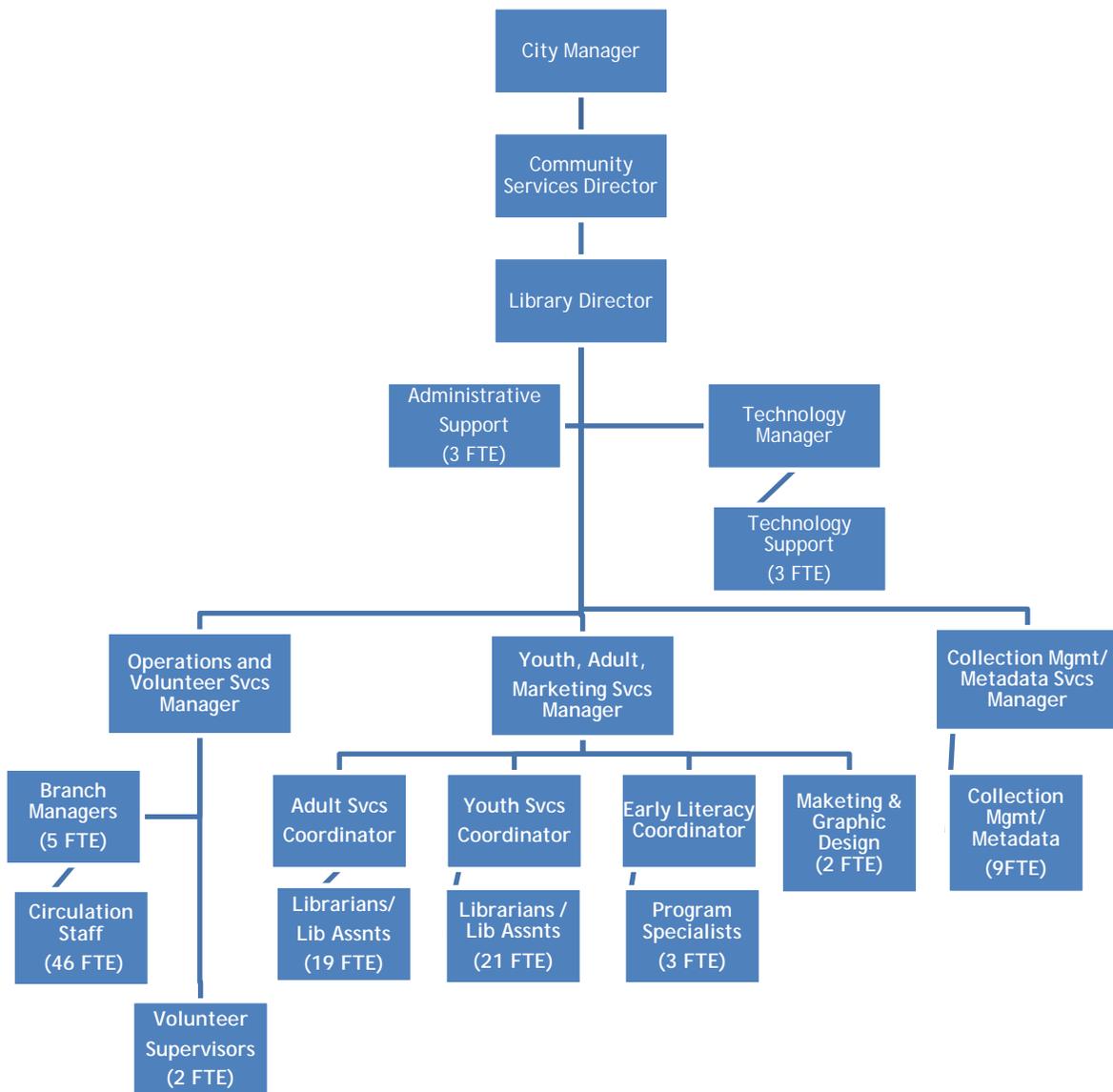
Figure 1. Library Branch Locations and Hours of Operation



SOURCE: Map from Land Information System; hours posted on the Library's website as of April 1, 2015.

In 2012, the Library went through a structural reorganization, going from branch-centered management to separating library programs and services from branch operations and volunteer services. Under the new structure, which is illustrated in Figure 2, librarians coordinate system-level library programs rather than just within their branch locations. For example, a librarian overseeing career development programs may be located at the Arabian branch, but managing programs that operate at the Civic Center branch or other branches. As well, the librarian's role now includes more public outreach. Besides being available to help patrons, librarians are now also expected to go out into the community to promote library programs and services.

Figure 2. Library Organization Chart



SOURCE: Auditor analysis of functional organization charts provided by Library management.

According to Library management, this structural transition resulted from the desire to provide more consistent service from branch to branch, as well as response to changing customer demand, as more patrons are going to the internet first for research.

Library Revenues and Expenditures

As shown in Table 1, in FY 2013/14, the Library spent about \$8.9 million from general fund and special revenues resources and about \$224,000 from grants and donations. Library Shop sales revenues, which includes the sale of library materials removed from circulation, donated materials, and library souvenirs purchased for resale, accounted for the majority of special revenues, about \$159,000. Revenues from endowments and gifts to the Library, generally with unrestricted use, accounted for another \$54,400.

Table 1. Library Revenues and Expenditures, FY 2013/14

General Fund and Special Revenues		Grants and Donations	
Fines and Fees	\$264,000	State Aid	\$160,800
Book Sales & Donations	213,400	Federal Aid	57,600
Palomino IGA & County Library	198,300	Contributions/Donations	5,400
Facilities Rental	60,700	Total Revenues	\$223,800
Printer/Copier	49,500	Personnel Services	\$143,000
Total Revenues	\$785,900	Supplies	47,100
Personnel Services	\$6,992,000	Contractual Services	33,100
Library Materials	936,000	Capital Outlay	800
Contractual Services	776,000	Total Expenditures	\$224,000
Operating Supplies	164,000		
Inventory Purchased for Resale	10,000		
Total Expenditures	\$8,878,000		

SOURCE: Auditor analysis of Smartstream (general ledger) accounting reports.

Library Collections and Management

The Library operates with a floating collection, allowing library materials to be checked out from and returned to any branch library. As shown in Table 2 on page 6, at the end of February 2015, the Library had approximately 448,000 items at the branches and another 154,000 items in its digital collection. This collection is primarily managed through Polaris, a library information management system implemented in June 2014, which is generally used for patron account and library catalog purposes. While the library materials inventory is not formally valued in the City's accounting records and financial reports, we estimate the Library inventory cost as being between \$12.5 and \$14.6 million based on library material purchases and deletions in recent years and the cost data available in the Polaris library catalog.

As shown in Table 2 on page 6, library branches vary in the number of library items available and visitor traffic. The Civic Center branch is the largest, with about 198,000 items on site

and averaging about 13,000 items in circulation and 8,500 visitors each week. The Palomino branch, located within Desert Mountain High School, has relatively high visitor counts during the school year, but 60% fewer visitors during the summer months. However, its circulation counts, the lowest of all five branches, are fairly level throughout the year.

Table 2. Visitor Counts, Circulation, and Estimated Library Materials, by Branch

Branch	Average Weekly		Number of Items ³ (Approximate)
	Visitors ¹	Circulation ²	
Civic Center	8,492	13,117	198,000
Mustang	5,809	9,088	97,000
Palomino	3,118	1,616	54,000
Arabian	3,121	4,675	45,000
Appaloosa	2,334	4,457	54,000
Total	22,874	32,953	448,000

¹Visitor averages calculated using gate counter data from July 2014 through January 2015.

²Circulation averages only include the initial checkout of physical library materials; renewals and online checkouts of digital materials are not included.

³Item counts as of February 2015 include materials such as books, periodicals and digital media (CDs and DVDs) that are available to patrons. Item locations vary from time to time because of inter-branch transfers, but these counts are representative of typical branch inventories.

SOURCE: Auditor analysis of gate counter data, circulation reports, staff-generated statistics, and library system reports on item location.

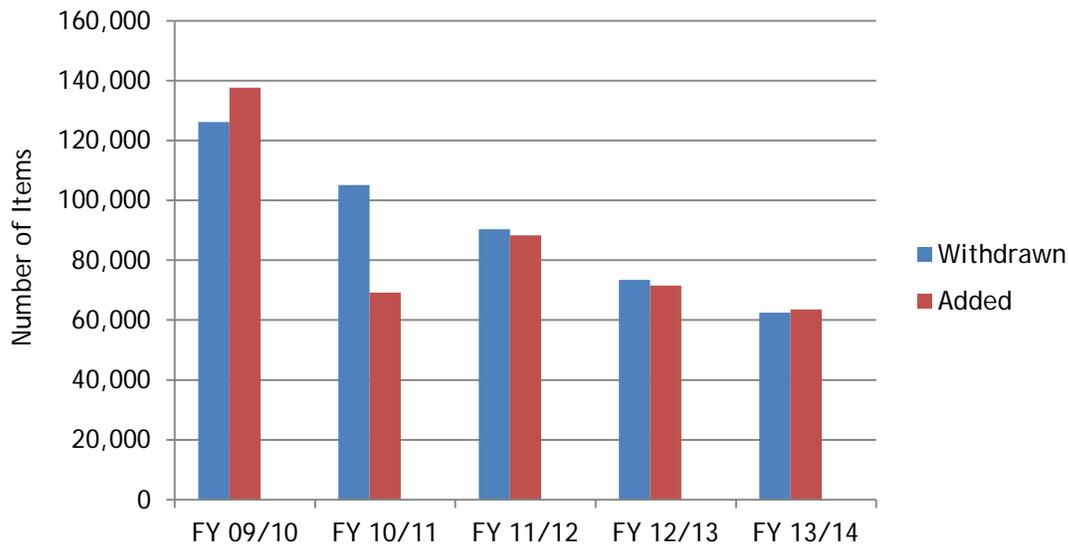
Physical Collection Management

New library materials are ordered monthly based on recommendations from the Library's vendors, patron usage statistics and other market information as provided by collectionHQ, a library collection management program. Most of the Library's vendors prepare the new books and media materials for circulation, including adding barcodes, security strips, covers with the Library's logo, and call number stickers.

To make room for new material, librarians remove other materials on a monthly basis. To facilitate this "deselection" process, collectionHQ identifies items that have not been checked out within the past year.¹ Library staff indicated that librarians are allowed to use professional judgment in deciding whether an item should be withdrawn from the collection. As summarized in Figure 3 on page 7, in some past years, there were more items withdrawn from the collection than added to it. When materials are withdrawn, they are typically sold in the Library Shop.

¹ A longer period of not being checked out is used in evaluating certain types of materials, such as reference books.

Figure 3. Library Collection Management, FY 2009/10 through FY 2013/14



SOURCE: Auditor analysis of the Metadata Librarian's collection management spreadsheet. The library information system records for the period prior to the Polaris system implementation in June 2014 were deleted.

In addition to withdrawn materials, other library materials are deemed to be lost, missing or damaged. Previously, the library catalog entries for these items were manually deleted after three to four months.² Currently, with implementation of the new Polaris system, the library catalog entries for lost, missing or damaged items are immediately suppressed from patron view and then are deleted after nine months.

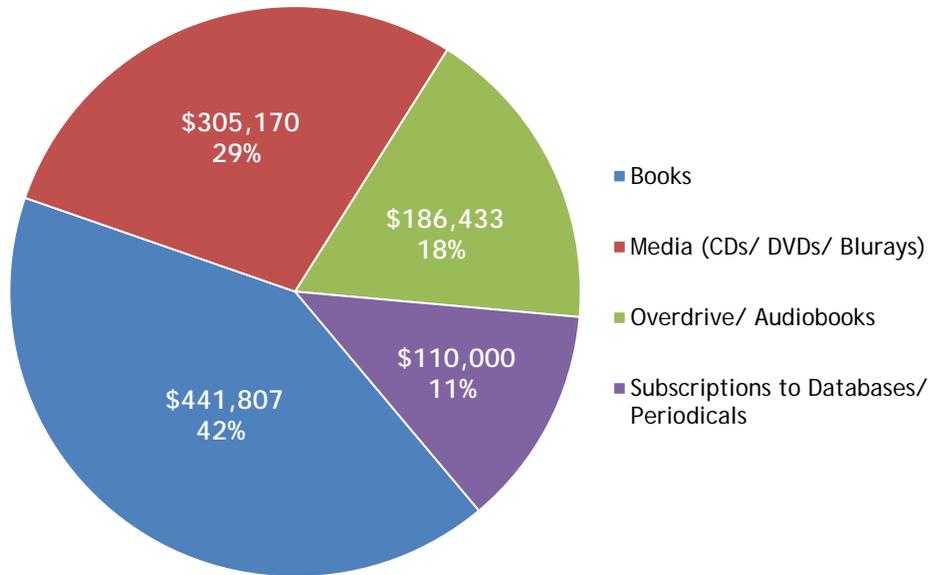
Digital Collection Management

The Library offers online access to downloadable digital materials, including eBooks, audiobooks, magazines, music, and streaming movies. The majority of this digital collection is provided through the Greater Phoenix Digital Library, an online library created by a consortium of Valley public libraries. The libraries' patrons have access to all consortium-purchased materials, and a member library may choose to purchase additional digital titles for the exclusive use of its patrons. As part of this Valley consortium, the Scottsdale Public Library pays the vendor a fee for the number of items its patrons borrowed in proportion to the total borrowed. In FY 2013/14, Scottsdale Public Library paid about \$130,000 to OverDrive®, the company that sells the digital material and hosts the consortium's online library.

As shown in Figure 4 on page 8, the Library spent approximately \$186,000 in FY 2013/14 to purchase digital materials. Additionally, the Library paid about \$110,000 for annual subscriptions to research databases and periodicals.

² These types of items were not deleted during the new Polaris system implementation, between June 2014 and February 2015. However, in March 2015, the deletion process for missing, lost and damaged library material items started again.

Figure 4. Library Material and Subscription Expenditures, FY 2013/14



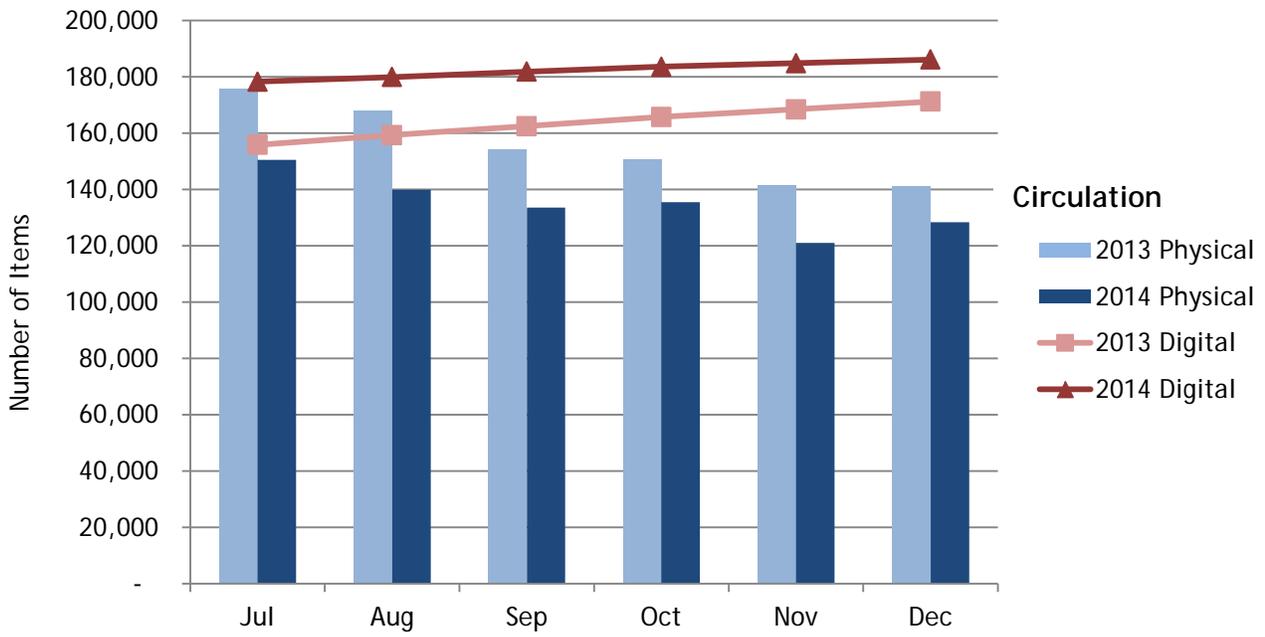
SOURCE: Auditor analysis of vendor payments in City's accounting system.

Transition to Digital Materials

Circulation of physical library materials is showing significant declines. As illustrated in Figure 5 on page 9, compared to the same months in the previous year, July through December 2014 monthly circulation of physical library materials was 9% to 17% lower. This decline was most dramatic starting in August 2014, coinciding with when the Library began integrating OverDrive® digital materials into its library catalog. This integration allows Library patrons to search both digital and physical titles at the same time and check out digital items without going to the separate Greater Phoenix Digital Library site.

(Continued on next page.)

Figure 5. Year-to-Year Circulation Comparison, July through December



SOURCE: Auditor analysis of Library reported digital and physical material circulation, excluding renewals.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Library Business Operations* was included on the City Council-approved fiscal year 2014/15 Audit Plan. The audit objective was to review the Library system's management controls over its business processes and operations.

To gain an understanding of Library business operations, policies, and practices, we interviewed the Youth, Adult & Marketing Services Senior Manager who served as Interim Library Director from August 2014 through February 2015. As well, we interviewed library staff including the Building Operations & Volunteer Services Senior Manager, a Senior Account Specialist, the Lead Systems Integrator, the Metadata Services Lead Librarian, the Collection Management Coordinator, branch managers, circulation staff and other librarians. We also interviewed the Community Services Division Senior Budget Analyst and toured each of the five library branches.

We reviewed related audit reports previously issued by this office, including *Accounts Receivable Management* issued in June 2014; *Cash Handling Controls* audits issued in March 2014 and January 2013; and *Palomino Library IGA Compliance* issued in February 2012. In addition, we reviewed library audit reports recently issued by other city auditors.

To gain an understanding of existing requirements and standards, we reviewed the following authoritative policies and related documentation:

- City Code, including relevant sections within Chapter 20 for *Public Library* and for *Facility Rental, Program, Charges, and Fees*.
- Administrative Regulations (AR) including AR 268 *Cash Handling*, AR 270 *Petty Cash*, AR 215 *Contract Administration*, AR 226 *Capital Asset: Acquisition, Inventory, and Disposal*, and AR 255 *Grant Handling and Administration*.
- Relevant sections of Governmental Accounting Standards Board (GASB) *Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, specifically those regarding *Reporting Capitol Assets* and *Reporting Works of Art and Historical Treasures*.

To assess the safeguarding of assets and inventory management, we:

- Tested accuracy and completeness of the Library catalog by: 1) calculating a statistically valid sample size, randomly selecting the sample items, and verifying whether those items were on the shelf or recorded as being checked-out and 2) selecting items on the library shelves and determining whether those items were recorded in the catalog.
- Calculated the estimated Library collection value using collection value reports from the Polaris information system, Library material expenditures from SmartStream, historical summary trial balances and records of deleted items.
- Tested the automated process for importing new materials data from vendors by comparing details from a sample of recent book and material invoices to information in the library catalog and listed on the library's public website.

- Reviewed physical security processes for certain library materials that are not circulated to determine if they are secured and recorded in the library inventory. We also observed branch physical security processes for minimizing the risk of loss or theft of library materials.

To evaluate staffing practices in comparison to demand for services, we:

- Selected a sample of each branch's weekly staffing schedules for librarians and library assistants and determined average hours per week spent at public service points versus time spent on other tasks.
- Compared library staffing allocations to circulation figures and patron counts by branch and compared Eureka loft staffing to reported public use.

To determine whether cash handling procedures are adequate to minimize the risk of loss or theft, we:

- Analyzed daily cash accounting records, including receipts, voids, fine and fee waivers, refunds, deposits and Library system financial reports.
- Observed cash handling operations, including cashiering and deposit preparation.
- Reviewed the policies, procedures and practices in place to provide assurance that donations are accurately tracked and recorded.

To assess whether Library fines and fees are accurate and consistently applied, we compared the fines and fees programmed into the Library information system to determine if they matched Council-approved rates and fees. As well, we reviewed the status of previous audit findings that were related to these Library business operations, including accounts receivable collection and write-off, Library fine and fee waivers, and reconciliation of copier/printer fees.

To evaluate whether information technology controls assure the accuracy, confidentiality and integrity of data, we reviewed system access controls including password protocols, login credentials, and user access levels and authorizations. Additionally, we reviewed the job descriptions of the Library technology positions.

Our audit found that Library resource management does not appear to maximize the public benefit; Library cash handling procedures do not ensure accuracy and minimize the risk of loss or theft; improvements to the Library's accounts receivables have not yet been made; and stronger information technology controls are needed to ensure the accuracy and integrity of data and information systems.

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 January through April 2015.

FINDINGS AND ANALYSIS

1. Library resource management does not appear to maximize the public benefit.

Improvements can be made to better track and secure library resources and ensure the accuracy of system information. Additionally, allocation of staffing resources to library branches and functions should be determined based on service demands.

A. The Library materials inventory is not periodically verified and the catalog system (Polaris) contains inaccuracies regarding the availability of library materials.

1. The Library does not perform periodic physical inventory counts of the materials that should be available for patrons. The Library uses a collection management system, collectionHQ, to identify low-circulation library materials (those that have not circulated within the past one to two years) and “grubby” (frequently used) items to pull off the shelves. So items may be missing for a year or more before being identified by this process.

To test the potential level of inaccuracy in the Library’s information system, we randomly selected a sample of 384 items from the Library catalog and found that 9.6% of the selected items were not at the stated location.³ For this sample size, the results had a 5% margin of error, therefore 4.6% to 14.6% of catalog items could be missing or misplaced. Based on these sample results, about 20,600 to 65,400 items of the total inventory, with an estimated cost of \$0.5 million to \$1.8 million, could be missing or misplaced.

2. While verifying the 384 randomly selected items, we also chose 60 items on various library shelves to verify to the Library catalog. Four of the 60 selected books were not recorded in the Library catalog system. Some of these unrecorded items may result from the Library’s deselection process. When Library staff cannot locate a book or other library material, the item is noted in the Library catalog system as missing. After several months, these items are deleted from the catalog system without searching for them again.⁴ Our sample results suggest that items are sometimes erroneously deleted from the Library catalog; therefore, Library patrons may not be seeing all the items that are actually available when they search the catalog.

Also, in March 2015, while reviewing recent library material purchases, we found an audiobook that had not been re-entered into the Polaris system as available for circulation although the replacement for its missing disk was received in September 2014.

3. The Polaris system shows that over the past 11 months Library staff has identified about 37,000 items with an approximate cost of \$839,000 as lost or missing. (These items were not included in our sample, so they are in addition to projected sample results of 20,600 to 65,400 missing items.) Further, although media materials such as DVDs, CDs, and audiobooks only account for about 18% of the

³ These results exclude any items recorded as having been checked out to patrons.

⁴ After June 2014, catalog entries for missing or lost items are deleted from the catalog after nine months. Previously they were deleted after three to four months.

448,000 physical library items, they represented nearly 58% of the lost or missing items identified by the library.

Through the deselection process for items with low circulation, an additional 25,700 items with an approximate cost of \$674,000 were withdrawn from the collection over the past 9 months. Table 3 summarizes the estimated total effect on the City's library collection.

Table 3. Summary of Missing, Lost, and Withdrawn Items as of February 2015

	Number of Items	Estimated Cost	Percentage of Available Items as of Feb 2015
Potentially Missing or Lost (sample results) ¹	43,000	\$1,200,000	9.6%
Identified Missing or Lost (about 11 months) ²	37,000	839,000	8.3%
Withdrawn (about 9 months) ²	25,700	674,000	5.7%
Total	105,700	\$2,713,000	23.6%

¹This is the midpoint of sample results. With a 5% margin of error, missing items could range from 4.6% to 14.6% based on the statistical sample's results.

²Polaris data for missing, lost and withdrawn items was available for July 2014 through February 2015. Based on the Library's past deletion practices, identified missing or lost items could include items missing or lost 3 to 4 months prior and withdrawn items could include items withdrawn 1 month prior to July 2014.

SOURCE: Auditor analysis of Polaris data as of February 26, 2015, and results from auditor inventory sampling.

4. The Palomino branch needs to improve its physical security controls. The door between the Library and the adjacent Library Shop, which is occasionally staffed by volunteers, is left open. It also does not have a security alarm as the main entrance does to reduce the risk of items being stolen. As a result, Library patrons can easily bypass Library security by exiting through the Library Shop. Further, the Palomino branch does not use security cases for its new DVDs/Blu-rays as another branch does to serve as a theft deterrent. Library management has a responsibility to ensure that all the branches make a reasonable effort to protect library materials from theft.
- B. Staffing levels should be determined based on demand for library services.
1. The allocation of library staff to the various branches has not been based on specific service objectives. When compared based on service drivers such as materials circulation or visitor counts, staffing levels vary from branch to branch. Additionally, the amount of time librarians and library assistants are scheduled to provide direct patron services varies significantly from branch to branch. Based on a review of four individual weeks during January to March 2015, the proportion of time that librarians and library assistants were scheduled to work at information desks and other public areas ranged from 27.1% to 43.2% of their total work hours.

According to the Youth, Adult & Marketing Services Senior Manager, the remainder of their time is spent working on library programs, conducting public outreach, or other special projects. However, management has not established general expectations of how much time should be allocated to the various responsibilities, and time on other activities is not tracked to allow analysis for effective staffing decisions.

2. Allocation of librarian hours to staff the Eureka Loft may be excessive based on typical patron usage. The Civic Center branch's dedicated area called Eureka Loft started in partnership with the City's Economic Development staff and Arizona State University to create a collaborative workspace. Eureka Loft programs include training for small businesses and job-related training for individuals, such as resume writing.

The Eureka Loft is currently staffed with either a librarian or volunteer whenever the Civic Center branch is open, 64 hours per week. Recent schedules indicate volunteers staff the Eureka Loft about 14 hours while librarians cover about 50 hours per week. However, this dedicated staffing level does not appear proportionate to the amount of Loft use. Manually recorded visitor counts indicate that an average of 133 patrons visited the Eureka Loft each week during July through December 2014.⁵ During this time, the Eureka Loft averaged 14 programs per month. Based on current scheduling and average visitor counts, the Library provides the equivalent of one librarian or volunteer hour for every two Eureka Loft visitors.

3. Librarians are scheduled to work for up to two hours before the Civic Center branch opens on Sundays. Although the Civic Center branch does not open until 1:00 pm on Sundays, two of the three librarians are scheduled to begin work at 11:00 am and the other at 12:00 noon. It appears that staff work hours could be reduced or rescheduled, or public use hours could be expanded at the Civic Center branch on Sundays.
- C. Three Library branches have restricted general public use of their public computer rooms/training labs without an ongoing reason to do so. At the Appaloosa, Arabian and Civic Center branches, a total of 26 computers have been restricted from public use. Since the spring of 2014, these restrictions may have been necessary to allow Library staff to use the computers for training on the Library's new Polaris information system. However, these public computer rooms were still restricted from general public use during March of 2015. Library management indicated that the Microsoft Office software was uninstalled from some of these computers, so they would not be as useful to the public. However, the branches also indicated the restriction continues because a decision has not been made on how the public computer rooms/training labs will be used in the future.

Recommendations:

Library Services management should:

- A. Ensure staff performs periodic physical inventories of the Library collection to ensure the accuracy of its catalog system and to identify any loss trends. Further, records for lost or missing items should not be deleted from the catalog system without additional

⁵ This average represents a 6% decrease in use compared to the same months in 2013.

efforts to locate the items. Library management should also ensure all branches use a reasonable effort to protect materials, including securing the door between the Palomino branch and its Library Shop and using media security devices.

- B. Evaluate staffing using a performance or service oriented allocation method. Also, Library management should set expectations for how much time librarians and library assistants should spend providing direct patron services, working on library programs and special projects, and administrative tasks. Specifically, Library management should:
 - 1. Develop and implement a consistent approach for allocating staffing hours to branch locations and for scheduling daily operations.
 - 2. Ensure efficient use of staff resources for the Eureka Loft area. For example, Library management should consider increasing the use of volunteers, securing the Eureka Loft when not scheduled for use or having Library staff periodically observe the area rather than provide constant staffing when programs are not scheduled.
 - 3. More closely align the Sunday public use hours and staff schedules at the Civic Center branch.
- C. Re-establish general public access to the computers in the public computer rooms/training labs when the area is not being used for staff classes or training.

2. Library cash handling procedures do not ensure accuracy and minimize the risk of loss or theft.

Improvements are needed to the Library's cash handling procedures, including accurate and timely reconciliations, complete documentation and appropriate segregation of duties, among others.

- A. Daily cash receipts are not accurately and promptly reconciled to the Library's Polaris system that tracks patron account activity, including any fines and fees owed.
 - 1. While Library staff calculates the difference in receipts recorded into the cash register and account payments recorded in the Polaris system, differences are not always researched, documented and resolved. During December 2014, there were ten instances, totaling \$39.85, when more cash was receipted than applied to patron accounts. There were also 11 instances, totaling \$113.79, when less cash was receipted than applied to accounts. These latter instances indicate cash received but not being recorded in the cash register, which may represent cash shortages.

Some of these errors may be caused by the Polaris system not being connected to the cashiering system. When a fine payment is made in cash and not immediately recorded to the Polaris account, there is insufficient information to later identify which Library patron made the payment. As a result, accounts receivable records are not being accurately maintained.

Civic Center branch's cash reports did not match the Polaris reports on 78 of the 128 days (61%) when reconciliations were completed; and Mustang branch's cash reports did not match the Polaris reports on 44 of 99 days (44%) when reconciliations were completed. Both the City of Phoenix and Maricopa County

library systems connect their cashiering systems to the Polaris system, which minimizes duplication of effort and helps ensure more accurate patron accounts.

Also, Administrative Regulation (AR) 268, *Cash Handling*, requires that all overages and shortages must be reported to the Accounting Department. However, Library staff only reports overages and shortages based on reconciling to the cash register tape and not to amounts recorded in Polaris as being received for patron accounts.

2. Daily cash reconciliations are not completed promptly at closing. AR 268 provides that each business day's cash transactions shall be prepared and sealed in a deposit bag before the start of the following business day. Instead, the Library's weekday cash transactions are reconciled the next day and weekend transactions are reconciled on Mondays.

Further, although the separate daily activity is available, the weekend transactions are combined into one reconciliation and deposit, which increases errors. In December 2014, three of Civic Center's four weekend reconciliations (75%) and two of Mustang's four weekend reconciliations (50%) had cash overages or shortages. These results were significantly worse than the 36% overall error rate for reconciliations, including both weekdays and weekends. These delayed and combined reconciliations increase the risk of loss and error.

3. The Civic Center branch's deposit documentation does not always evidence that dual custody of cash is being maintained. Two of 22 deposit slips reviewed for the Civic Center branch, or 9.1%, only included one staff's initials/signature to indicate responsibility for the amounts listed on the deposit slip. AR 268 requires that all cash balancing must be performed in dual custody and signed off by the responsible staff. Performing cash balancing activities in dual custody can reduce the risk of error and fraud.

B. Cashiering practices are not effectively implemented nor consistently followed.

1. Current procedures do not hold individual staff accountable for their cash transactions.
 - Cash drawers are shared by all cashiers. Certain Library staff rotates responsibilities resulting in the cashiers changing every hour.
 - Library cashiers are not required to balance daily cash receipts at the end of their hourly rotations or even at closing. Instead, on the next weekday, an administrative staff attempts to reconcile cash receipts, the register totals and patron account payments.
 - Library cashiers manually enter their ID codes into the cash register for each transaction. There is no control to prevent a cashier from using someone else's code or making an error while entering their own.
 - At each branch, all Library cashiers use the same Polaris user log-in, which means the system does not track which individual employee made changes to patron accounts or entered payment-related transactions. As well, the Library cashiers are allowed to waive fines and fees and delete patron accounts from the Library system without supervisory oversight. Deleting patron accounts permanently deletes the record of fines and fees associated with that account.

The combination of inadequate system controls and cash handling procedures results in a lack of accountability. In the event that money is missing, it would not be feasible to identify the cause and all cash handling employees would remain suspect. AR 268, *Cash Handling*, requires that City staff performing cash handling duties shall be responsible for their own register or money bag and will be held accountable for cash balancing at the end of every shift.

2. Documentation was incomplete for 5 of the 13 voided transactions in the Civic Center branch's December 2014 cash transactions. These 5 voids were missing a written explanation, staff initials or signature, supervisor initials or signature and/or the voided receipt. AR 268 requires that all voids must be accompanied by a written explanation and signature of the approving manager or supervisor. Further, in retail operations, the customer's signature is typically required.
3. Library staff frequently opens cash drawers with a "no-sale" transaction. The no-sale opening may be used if a Library patron requests change; however, the frequency appears unusually high. During December 2014, the cash register drawer was opened as "no sale" 367 times at the Civic Center branch and 174 times at the Mustang branch, which equated to 1 no-sale for about every 5 cash receipt transactions. Monitoring the use of no-sale transactions can help determine whether its use is appropriate and if a separate bill/change machine is needed for patron use.
4. Controls for cash donations received by the Library can be improved. When a patron makes a donation in person, the cash register transaction is generally the only record. Requiring the cashier to maintain a donation log would allow the Library to send an appreciation letter and would provide a record for reconciliation purposes.

When a donation is received through the mail, the mail opener photocopies the check so that an appreciation letter can be sent. However, these records are not reconciled to cash receipts and deposits. Since a cash donation to the Library is not represented as tax-deductible, the patron may not expect a receipt. Unrecorded donations are more susceptible to theft or loss. Additionally, while some donors or trusts provide recurring donations, the amounts are not recorded in the City's accounting records as receivable. Instead, they are recorded when the donation is received.

Further, when the Library receives donations in check form, staff does not redact sensitive information from the photocopy for the files. Redacting the account number and signature on the photocopy serves to minimize the risk of misuse.

- C. The physical controls to safeguard cash need to be strengthened. Although required by AR 268, deposits are not always maintained in a dual-custody safe, keys to a dual-custody safe are not adequately restricted, several key copies exist and excess cash amounts were sometimes not removed from cash drawers and put into the safe. Complying with AR 268 requirements reduces the risk of loss and improves employee safety.

Additional information regarding physical controls has been provided separately to management to facilitate corrective action.

- D. Currently, the Library branches provide an "honor box" for patrons to pay for items they choose from the Library Shops. These shops sell library materials that were either

removed from circulation or donated and souvenir items that the Library has purchased to sell.

After making their selections, patrons are expected to place appropriate cash or checks into the "honor" drop box for their purchases. At the Civic Center and Mustang branches, Library patrons also have the option of paying for their items at the cash register.

The honor box system does not allow the Library to track the inventory of library souvenirs it has purchased to sell in the Library shops. There is no record of sales to compare to the approximately \$10,000 of items purchased annually to sell. As a result, the Library cannot evaluate whether or not the souvenirs are paid for, and the Library does not have sales data to help guide future inventory purchases.

One reason the honor box system is used is to reduce staff's cash handling duties. However, Library staff also commented that potential sales are often lost at the "cashless" branches because patrons do not always have the correct amount of cash with them and these branches are unable to make change.

Recommendations:

Library Services management should:

- A. Establish effective cash reconciliation processes, including:
 1. Ensuring cash receipts are reconciled to patron account payments recorded in the Polaris system and overages/shortages are reported to Accounting as required by AR 268, *Cash Handling*. Further, Library management should evaluate options for integrating a point-of-sale system with the Polaris system to minimize duplication of effort and increase cash receipt and patron account accuracy.
 2. Directing staff to complete a timely reconciliation and deposit for each day's activity, including each separate weekend day.
 3. Ensuring dual custody of cash is maintained and documented.
- B. Implement sound cash handling procedures at Library branches that are in accordance with AR 268 by:
 1. Requiring individual staff to be held accountable for their cash transactions, including maintaining separate register drawers or money bags and balancing cash receipts at the end of each cash-handling shift. As well, cash handling employees should not be able to waive fines and fees or delete patron accounts in the Polaris system.
 2. Ensuring all voided transactions are appropriately documented with an explanation, customer signature, and staff and supervisor sign-offs.
 3. Monitoring the frequency of no-sale transactions and evaluating alternatives for providing change for Library patrons.
 4. Requiring that mail donation records be provided for the deposit reconciliation. For donations received at the register, a log of donations should be created and provided to an independent staff for reconciliation. Further, Library management should work with the Accounting Department to create receivable accounts for

recurring donations and direct payments to Remittance Processing. Also, require all sensitive information to be redacted from check copies.

- C. Strengthen the physical controls to safeguard cash by ensuring staff stores deposits in the dual custody safe, limiting access to the dual custody safe keys, reducing the number of key copies, and ensuring staff counts and removes excess cash from the registers during the day and appropriately secures it in the safe.
- D. Consider re-implementing payment acceptance at all Library branches, rather than just the Civic Center and the Mustang branches, and eliminating the Library Shop honor boxes.

3. Improvements to the Library's accounts receivables have not been made.

Certain Library policies and practices relating to fines and fees have not been approved by City Council and application of fines and fees rules have not been consistent across all patron accounts. Additionally, past audit recommendations relating to accounts receivables and cash handling have not yet been implemented.

- A. The Library's fines and fees are not consistently applied, and some related practices have not been submitted for Council approval.
 - 1. Starting in October 2013, the Library began allowing a one-day fine grace period as a "courtesy" to patrons. Fines are not assessed if a patron returns library materials one day after their due date.⁶ The one-day grace period is automatically given to all eligible patrons; however, this is not a written Library policy. Further, this practice was not submitted for Council approval as part of the required rates and fees process.
 - 2. The Library's \$5.00 non-refundable processing charge is inconsistently applied. The Library established a Council-approved \$5.00 non-refundable processing fee that is charged along with replacement cost for material that is overdue by 21 or more days. If the missing material is returned prior to payment, the Polaris system automatically waives the replacement cost and the processing fee and instead applies late fines. However, if the patron has already paid the replacement cost and processing fee, only the replacement cost is refunded. Although the Polaris system automatically reverses both the replacement cost and processing fee and assesses late fines, Library staff manually charges the \$5.00 processing fee and waives any associated fines.

As shown in the Table 3 example on page 21, a patron returning a \$20 book late could pay from \$4.20 to \$10.00 in fines or fees.

(Continued on next page.)

⁶ If a patron returns library materials two or more days late, the full amount of fines (including the first day) would be assessed.

Table 4. Examples of Library’s Processing Fee Application

	Replacement Cost	Processing Fee	Late Fines ¹	Total Due
Patron fails to return book	\$20.00	\$5.00	\$0.00	\$25.00
After payment, patron returns missing book and requests refund	\$0.00	\$5.00	\$0.00	\$5.00
Before payment, patron returns the book 21 days after the due date	\$0.00	\$0.00	\$4.20	\$4.20
Before payment, patron returns the book 50+ days after the due date	\$0.00	\$0.00	\$10.00	\$10.00

¹ The Library assesses a maximum of \$5 for overdue children’s and teen materials, and a maximum of \$10 for other late materials that are returned.

SOURCE: Auditor analysis of Polaris reports and FY 2014/15 Council-approved Rates and Fees schedules.

3. Certain types of patron accounts are not assessed fines, but these exceptions were not included with the rates and fees schedule submitted for Council approval. Of the Library’s 14 account types, the following 5 are not assessed fines for overdue material:
 - *DMHS Teacher* accounts set up for Desert Mountain High School teachers to check out library material for use in their classrooms.
 - *ILL* accounts for the inter-library loan program used when Scottsdale library material is provided to other organizations.
 - *Homebound* accounts for patrons residing in a non-driving household. Library materials are delivered and picked up by Library couriers.
 - *Staff* accounts intended for Library staff to check out library material for business-related purposes such as Goodreads reviews and story-time programs.
 - *Child-Book Bites 1* accounts for infants up to 12 months of age. Fines are not assessed on overdue library material until the child’s first birthday.

Fines and fees help to ensure items are returned for other patrons’ use. For some account types, an extended checkout period may be appropriate. But for other account types, using a fine waiver process would allow the Library to assess the effectiveness of its practice.

- B. Prior audit recommendations to improve Library’s accounts receivable and cash handling have not been timely addressed.
 1. Changes have not yet been made to the Library’s process of collecting delinquent accounts. The Library manages its own accounts receivable and collection agency contract, but does not have a detailed written policy on how receivables will be

managed. Further, the Library does not retain documentation of collection efforts for written-off accounts.

In June 2014, the City Auditor's Office recommended that the City Treasurer's Office evaluate whether Accounting and Business Services staff should manage the Library accounts receivable, including collection efforts. Otherwise, the Library should be required to submit its collection policies, processes and documentation of collection activity for accounts submitted for write-off. However, Library management has not been responsive to the City Treasurer's Office offers for assistance in collecting delinquent accounts and has not yet developed collection policies, procedures and measures.

2. The Library has not yet established specific criteria and documentation requirements for fine and fee waivers and has not properly separated incompatible duties.
 - The Library's policy and practice is to let circulation staff waive patron fines and fees if they think there are "extenuating circumstances." The Library has a document labeled "Guidelines for Collecting and Waiving Fines" which is not integrated into its Policy Manual. These guidelines have not been updated for more than two years and do not reflect current practice or recommended improvements. Well-developed written policies and procedures are an effective way to maintain a strong system of internal controls by communicating requirements to staff.
 - Library policy still does not require appropriate documentation, such as an explanation, the patron's signature and a supervisory signature. Our review of 58 staff-initiated waiver transactions found 29 waivers, or 50%, without supporting documentation.⁷ A Library supervisor indicated staff is supposed to document the reason for their waivers; however, the current guidance does not state this requirement. Lack of waiver documentation and supervisory review increases the risk of fraud or error.
 - Incompatible duties are not separated, as staff authorized to collect cash payments are also authorized to waive amounts owed. To mitigate the risk, a senior management analyst used to periodically review waived fines and fees for reasonableness. However, this position, which also had access to cash, has been vacant since October 2014, and the review has not occurred since that time.

Properly separating duties and requiring appropriate waiver documentation would provide better accountability.

3. Recommended improvements have not yet been made to the Library's printer/copier revenue reconciliation process. The reconciliation still does not account for all patron copies or prints and reconcile copier/printer use to deposits. The cash count form sign-offs indicate that dual custody of cash has not consistently been maintained. In addition, amounts deposited and reported for inclusion in the City's general ledger are not verified to the supporting documents by an independent supervisor. As well, the Library printer/copier change funds are not properly identified on Accounting's list of authorized change funds.

⁷ Staff-initiated waivers exclude those that are programmed into the Polaris system and occur without staff action.

Recommendations:

Library Services management should:

- A. Ensure policies and procedures related to the Library's Council-approved fines and fees are consistently applied by:
 1. Eliminating the one-day grace period or incorporating it into the fines and fees submitted to Council and including the one-day grace period in the published fines and fees schedules.
 2. Applying the \$5.00 processing fee and applicable fines in a consistent manner.
 3. Allowing fines to post to all patron account types and then waiving them when appropriate. Alternatively, extended checkout periods could be established for some account types such as for books for classroom use.
 - B. Address recommendations made in *Accounts Receivable Management*, Audit No. 1410 and *Cash Handling Controls and Accountability, Fiscal Year 2013/14*, Audit No. 1404 by:
 1. Developing, in conjunction with the City Treasurer's Office, formal policy and procedures for accounts receivable, including fine and fee waivers, collections and write-offs, and integrate the policy and procedures into the Scottsdale Public Library Policy Manual.
 2. Establishing and implementing adequate controls over the waiver of Library fines and fees, including appropriate segregation of duties, documentation requirements and regular supervisory review.
 3. Ensure printer/copier use is reconciled to cash collected and deposited, and that an independent supervisor reviews the cash balancing document.
4. Stronger information technology controls are needed to ensure the confidentiality, accuracy and integrity of the Library's information system.

Basic information security practices have not been implemented to safeguard the Library's information system and to ensure proper record retention. Also, Library information systems are maintained independently rather than taking advantage of specialized expertise in the City's Information Technology Department.

- A. Basic information security practices are not applied to safeguard confidentiality and integrity of the Library's Polaris information system. The Library does not issue individual login credentials to each authorized user, and the shared credentials are not regularly changed and are readily accessible.
 1. Each computer with the Polaris system installed is assigned a Polaris login and password that all staff uses for checking in/out library materials, collecting payments for fines and fees, and waiving fines and fees. With these shared credentials, there is no individual accountability for accessing sensitive patron information or recording payments or other adjustments to patron accounts. As well, the shared credentials mean that a user's access cannot be limited to only what is required for carrying out his or her responsibilities.

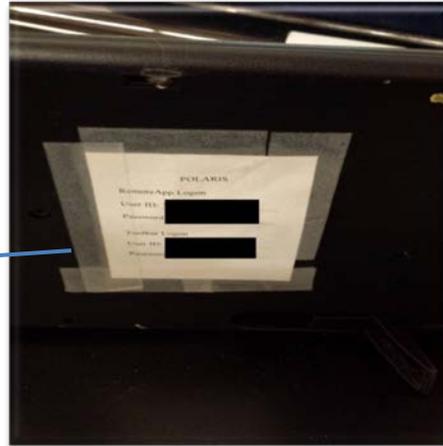
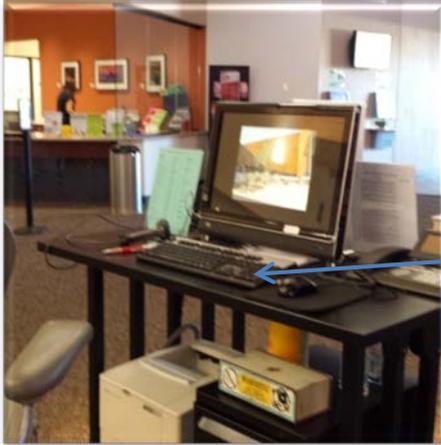
Effective information security controls restrict legitimate users' access to only the systems and information needed and limit unauthorized users from gaining access. The most effective way to accomplish secured access is by uniquely identifying individual users; generic logins and passwords should not be used. Additionally, AR 136, *Network and Computer Security*, states that each person requiring access to the network or computing systems must have his/her own user login and password.

2. Library management stated that the Polaris system passwords have not been changed since system implementation began in late June 2014. Strong information security controls require that passwords be changed periodically, about every 30 to 90 days. AR 136, *Network and Computer Security*, states regularly changing and safeguarding passwords is one method of safeguarding City information systems and data, and the City's network forces user passwords to be changed at least every 90 days. Further, the Library's contract with Polaris for its virtual private cloud services requires that passwords must be set to expire in 180 days or less.
3. The shared user credentials that provide access to the Library's information system are physically posted on or near the staff computers, as shown in Figure 6 on page 25. The posted credentials are on some computers in various public Library areas as well as in the administrative offices.

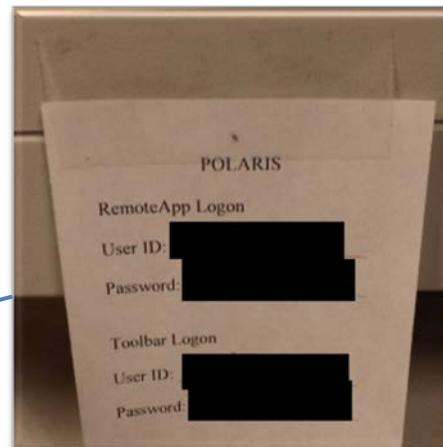
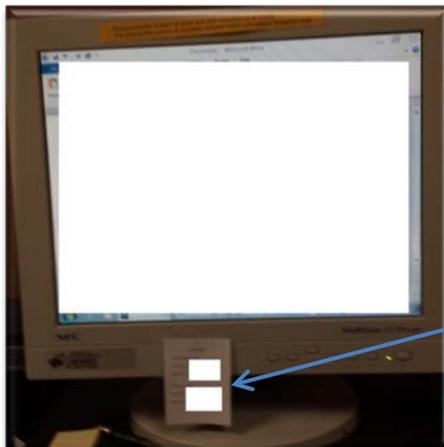
(Continued on next page.)

Figure 6. Polaris User Credentials Posted

Public Area Staff Computer



Administrative Area Staff Computer



Source: Auditor observation of staff computers at the Civic Center branch.

The security provided by having user login credentials is made ineffective by posting them in readily accessible places on or near the computers.

- B. The Library does not ensure proper records retention for accountability and legal compliance purposes. This issue was previously identified in Audit Report No. 1410, *Accounts Receivable Management*, with the Library's previous information system and has not been remedied in the new system. Any Library staff with access to the Polaris system has sufficient system access to permanently delete patron accounts and the associated records. Library staff explained that patron accounts are deleted upon customer request as long as the account balance is zero. However, other Valley libraries using Polaris indicated they inactivate rather than delete patron accounts.

Since the Polaris implementation in June 2014, at least 50 patron accounts with associated payments or staff-initiated waivers have been permanently deleted. We compared current patron account numbers to transactions from June 2014 through March 2015 and found 50 account numbers that could not be matched with patron information. Payment transactions for deleted patron accounts totaled about \$600, and staff-initiated waivers for deleted patron accounts totaled approximately \$225.

Since the Polaris system does not retain deleted accounts in a separate table within the system, staff cannot correct any mistaken deletions. Once deleted, the patron account details, including the associated fines and fees, are permanently lost. As a result, validating the detailed support for cash reconciliations and accounting entries is not always possible. These deletions also result in variances between the Polaris system's detailed reports and the summary reports that are used to reconcile daily receipts. Unreliable reports increase the risk that fraud or error could occur and not be detected.

Further, state-mandated records retention schedules require that certain library patron account and financial records be maintained for at least 3 years.

- C. Maintaining a technology department completely separate and independent of the City's Information Technology Department is inefficient and has not been effective for establishing adequate security over the Library's information systems. Currently, the Library has four technology staff to support the Library's network and applications on a separate domain and servers.

However, maintaining a network requires expertise in many technical areas such as network security, infrastructure, web development and application support. Maintaining the Library system separate from the City's network is supposed to achieve better network security for the City. But it does not appear to achieve better security for Library patron accounts and the City's related accounting transactions.

For other City departments with a similar level of technology staff, their information systems reside on the City network and servers that are supported by the Information Technology Department. This includes departments with sensitive information such as the City Attorney's Office and the City Court. Information Technology staff also helps the Police Department technology staff support that department's applications and network.

The job description for the Lead Systems Integrator position requires 2 years of technical experience although the Senior Systems Integrator position that it supervises requires 4 years. While the Lead position title is not used in the City's Information Technology Department, the City's Chief Information Officer indicated that 5 years' experience would be the minimum he would expect for that position. Also, with only half the experience required, a Lead Systems Integrator may not have sufficient technical knowledge and skills to effectively supervise and evaluate the work of the Senior Systems Integrator. Further, the Lead Systems Integrator job description indicates that knowledge of SQL servers and other databases is required. However, during the course of the audit, the Library technology staff required vendor support to extract data from the SQL-based system which is a commonly used database format.

Recommendations:

The Community Services Director should require Library management to ensure that staff:

- A. Issue unique user logins and passwords for staff using the Library network, the Polaris system and other Library applications to help ensure accountability. Management should conduct a segregation of duties analysis to properly establish categories of system access rights and assign the appropriate category for each individual user. Further, management should require that passwords to the Library's network and applications be changed at least every 90 days and prohibit user credentials from being posted.
- B. Immediately discontinue the practice of permanently deleting patron accounts prior to the period legally required for financial-related and library-related records retention. Further, Library management should restrict to an appropriate management staff level the ability to permanently delete patron accounts.

As well, the City Manager should consider requiring:

- C. Community Services management and Information Technology management to transfer the Library's network and information technology support to the Information Technology Department. Otherwise, Community Services Management should require the Library to work closely with the Information Technology Department to ensure its practices are adequate in areas such as network security, infrastructure, web development and application support.

MANAGEMENT ACTION PLAN

1. Library resource management does not appear to maximize the public benefit.

Recommendations:

Library Services management should:

- A. Ensure staff performs periodic physical inventories of the Library collection to ensure the accuracy of its catalog system and to identify any loss trends. Further, records for lost or missing items should not be deleted from the catalog system without additional efforts to locate the items. Library management should also ensure all branches use a reasonable effort to protect materials, including securing the door between the Palomino branch and its Library Shop and using media security devices.
- B. Evaluate staffing using a performance or service oriented allocation method. Also, Library management should set expectations for how much time librarians and library assistants should spend providing direct patron services, working on library programs and special projects, and administrative tasks. Specifically, Library management should:
 1. Develop and implement a consistent approach for allocating staffing hours to branch locations and for scheduling daily operations.
 2. Ensure efficient use of staff resources for the Eureka Loft area. For example, Library management should consider increasing the use of volunteers, securing the Eureka Loft when not scheduled for use or having Library staff periodically observe the area rather than provide constant staffing when programs are not scheduled.
 3. More closely align the Sunday public use hours and staff schedules at the Civic Center branch.
- C. Re-establish general public access to the computers in the public computer rooms/training labs when the area is not being used for staff classes or training.

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION: Item 1 A.: The library will perform physical inventories of a subset of the Library's collections using Polaris software and review new and "most wanted" items, audiobook collections, DVD collections, and some of the smaller genre subsets of the large fiction collection. We are considering instituting a regular "shelf-reading" assignment to the Page Supervisors to ensure items are on the shelves in their appropriate places. Review of the Palomino branch's security issues will take place and resolved by 8/1/2015.

RESPONSIBLE PARTY: Rebecca Gallivan, Senior Library Manager, and Robbin Gaebler, Senior Library Manager

COMPLETED BY: 08/01/2015

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION: Item 1 B1 through B3: The library teams at each branch are implementing a new scheduling software "When-to-Work" to help with scheduling the

appropriate staff at the public service points. We will evaluate the use of the software after 6 months. We will also review Sunday hours, and may adjust staffing to coincide with public hours based on use. Review of Eureka Loft staffing will be reviewed here, as well, with anticipated assistance by our shared EL partner, the Economic Development Dept.

RESPONSIBLE PARTY: Kathy Coster, Senior Library Manager

COMPLETED BY: 07/01/2015

MANAGEMENT RESPONSE: Agree, with changes to recommendation

PROPOSED RESOLUTION: Item 1 C: The Library has determined that the computer rooms will likely be repurposed in a manner more consistent with community needs as meeting room space. Library IT staff will work with COS IT to evaluate these computers for their best use; any unused computers will be returned to COS IT.

RESPONSIBLE PARTY: Kathy Schoepe, Lead Systems Integrator, and Robbin Gaebler, Senior Library Manager

COMPLETED BY: 09/30/2015

2. Library cash handling procedures do not ensure accuracy and minimize the risk of loss or theft.

Recommendations:

Library Services management should:

- A. Establish effective cash reconciliation processes, including:
 1. Ensuring cash receipts are reconciled to patron account payments recorded in the Polaris system and overages/shortages are reported to Accounting as required by AR 268, *Cash Handling*. Further, Library management should evaluate options for integrating a point-of-sale system with the Polaris system to minimize duplication of effort and increase cash receipt and patron account accuracy.
 2. Directing staff to complete a timely reconciliation and deposit for each day's activity, including each separate weekend day.
 3. Ensuring dual custody of cash is maintained and documented.
- B. Implement sound cash handling procedures at Library branches that are in accordance with AR 268 by:
 1. Requiring individual staff to be held accountable for their cash transactions, including maintaining separate register drawers or money bags and balancing cash receipts at the end of each cash-handling shift. As well, cash handling employees should not be able to waive fines and fees or delete patron accounts in the Polaris system.
 2. Ensuring all voided transactions are appropriately documented with an explanation, customer signature, and staff and supervisor sign-offs.
 3. Monitoring the frequency of no-sale transactions and evaluating alternatives for providing change for Library patrons.
 4. Requiring that mail donation records be provided for the deposit reconciliation. For donations received at the register, a log of donations should be created and

provided to an independent staff for reconciliation. Further, Library management should work with the Accounting Department to create receivable accounts for recurring donations and direct payments to Remittance Processing. Also, require all sensitive information to be redacted from check copies.

- C. Strengthen the physical controls to safeguard cash by ensuring staff stores deposits in the dual custody safe, limiting access to the dual custody safe keys, reducing the number of key copies, and ensuring staff counts and removes excess cash from the registers during the day and appropriately secures it in the safe.
- D. Consider re-implementing payment acceptance at all Library branches, rather than just the Civic Center and the Mustang branches, and eliminating the Library Shop honor boxes.

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION: Item 2 A. 1: Library staff is looking into the possibility of a cloud-based program to assist as a point-of-sale system, especially for our "cashless" libraries. We will work with Financial Services staff here, to ensure all COS protocols are met, especially with all cash handling, reconciliation and physical control processes.

RESPONSIBLE PARTY: Kathy Schoepe, Lead Systems Integrator

COMPLETED BY: 09/30/2015

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Item 2 A.2 thru 2 B-D: Library staff will work to adjust cash receipt "close-out" procedures at the end of the evenings, and ensuring a correct accounting of daily cash is recorded, timely reconciled and secured the same day. Library staff will revise cash security and handling to reflect that more of COS AR 268 controls are enforced. Item 2.D addressed by above response.

RESPONSIBLE PARTY: Robbin Gaebler, Senior Library Manager, and Nancy Iwanicki, Library Supervisor

COMPLETED BY: 09/30/2015

3. Improvements to the Library's accounts receivables have not been made.

Recommendations:

Library Services management should:

- A. Ensure policies and procedures related to the Library's Council-approved fines and fees are consistently applied by:
 - 1. Eliminating the one-day grace period or incorporating it into the fines and fees submitted to Council and including the one-day grace period in the published fines and fees schedules.
 - 2. Applying the \$5.00 processing fee and applicable fines in a consistent manner.
 - 3. Allowing fines to post to all patron account types and then waiving them when appropriate. Alternatively, extended checkout periods could be established for some account types such as for books for classroom use.

- B. Address recommendations made in *Accounts Receivable Management*, Audit No. 1410 and *Cash Handling Controls and Accountability, Fiscal Year 2013/14*, Audit No. 1404 by:
1. Developing, in conjunction with the City Treasurer's Office, formal policy and procedures for accounts receivable, including fine and fee waivers, collections and write-offs, and integrate the policy and procedures into the Scottsdale Public Library Policy Manual.
 2. Establishing and implementing adequate controls over the waiver of Library fines and fees, including appropriate segregation of duties, documentation requirements and regular supervisory review.
 3. Ensure printer/copier use is reconciled to cash collected and deposited, and that an independent supervisor reviews the cash balancing document.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Item 3 A through B.: Library staff are currently working with the new Director (Kathleen Wade) and will revise the Library System Policy Manual to include specific criteria to determine when fines and fees can and will be waived by staff and at what level of authority at each particular branch. This review will include the \$5.00 processing fee, and how to consistently apply it. This new written document will be reviewed by the Treasurer's office and will be submitted for Library Board approval before their summer break in July 2015.

The "grace-period" issue in Item 3 A.1 has been discussed and is being removed May 1st, 2015.

Community Services staff will work with the City Treasurer's Office to improve processes for Library collection and write-off. Community Services staff will be trained to use the newly installed Polaris Integrated Library System *fee collection features which were implemented in June 2014. This software will continue to improve customer service, maximize fines and fees collections, and provide an appropriate audit trail.

Former Library Director Carol Damaso met with Unique Management Services (the library's collection agency) to discuss new process management related to Fee notices on Jan. 28, 2014 prior to our Audit Meeting. Ms. Damaso reported to the Library Board, June 18, 2014, that the Library staff were reviewing the Collection processes and would be providing change recommendations to the Library's fines and fees procedures. She also recommended a complete business operations audit of the Library system as a whole which will go to the audit committee in May 2015.

At the request of the city, Unique's New "Follow-Up Letters" were updated in Nov. 2014. Unique has addressed the Fees/Fines Notices and updated their procedure on collections in Jan. 2015.

Audits 1410 and 1404 recommendations were not acted upon prior to the new business operations audit in January 2015, under Interim Director Kathy Coster. Current staff, under the guidance of Director Wade, will be responsible for addressing these issues.

Library staff met with Business Services Department at the suggestion from audit team to look at alternative methods of process improvement. In the summer 2014, it was determined after multiple meetings and with the changes Unique has agreed to implement with fine notification the Library would continue their contractual agreement with Unique.

RE: Item B-1: Polaris recently announced (4/27/2015) that a waive option will be released some time in 2015, which requires a reason for all waives. Library Administration will review this option for effectiveness in our system.

RE: Item B-3: Printer/copier procedures will be reviewed (and amended, as necessary) to ensure that cash reconciliation, deposits and appropriate balancing reviews follow AR 268.

RESPONSIBLE PARTY: Kathy Coster, Senior Library Manager

COMPLETED BY: 07/01/2015

4. Stronger information technology controls are needed to ensure the accuracy and integrity of data in the Library's information system and with other library data.

Recommendations:

The Community Services Director should require Library management to ensure that staff:

- A. Issue unique user logins and passwords for staff using the Library network, the Polaris system and other Library applications to help ensure accountability. Management should conduct a segregation of duties analysis to properly establish categories of system access rights and assign the appropriate category for each individual user. Further, management should require that passwords to the Library's network and applications be changed at least every 90 days and prohibit user credentials from being posted.
- B. Immediately discontinue the practice of permanently deleting patron accounts prior to the period legally required for financial-related and library-related records retention. Further, Library management should restrict to an appropriate management staff level the ability to permanently delete patron accounts.

As well, the City Manager should consider requiring:

- C. Community Services management and Information Technology management to transfer the Library's network and information technology support to the Information Technology Department. Otherwise, Community Services Management should require the Library to work closely with the Information Technology Department to ensure its practices are adequate in areas such as network security, infrastructure, web development and application support.

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION: Item 4 A.: Current network logins will be evaluated as part of the Library business operations review with the City's Information system management team.

RESPONSIBLE PARTY: Kathy Schoepe, Lead Systems Integrator

COMPLETED BY: 09/30/2015

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Item 4 B.: We will comply with records retention policy for deleting customer accounts. We will consider restricting patron record deletion to certain staff levels.

RESPONSIBLE PARTY: Kathy Schoepe, Lead Systems Integrator

COMPLETED BY: 04/23/2015

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION: Item 4 C.: The library network is separate from the City network at the City IT Department's request to ensure that if the public network is compromised it will not impact the systems and services reliant on the city's internal business network. The Library Technology department works regularly with City IT and will meet with City IT management to review, discuss and resolve the initial internal and operational findings from this audit.

Afterwards, the Library Technology and IT management teams will meet to take a holistic look at the Library's technology infrastructure as well roles and responsibilities performed by staff to ensure the most effective City resources are being applied to meet the Library's business needs.

RESPONSIBLE PARTY: Kathy Schoepe, Lead Systems Integrator

COMPLETED BY: 05/04/2015

City Auditor's Office

7447 E. Indian School Rd., Suite 205
Scottsdale, Arizona 85251

OFFICE (480) 312-7756
INTEGRITY LINE (480) 312-8348

www.ScottsdaleAZ.gov/departments/City_Auditor

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