Internal Audit Division
City of Greensboro

GREENSBORO

April 20, 2010

TO: Rashad Young, City Manager

FROM: Internal Audit Division

SUBJECT: Greensboro Public Libraries Review

The Internal Audit Division has completed our review of The Greensboro Public Libraries. Attached you will find our review report; the departmental response and our replies to their responses. We feel that sufficient corrective actions have been implemented to our recommendations as we move forward. If you have any questions or need additional information, please let us know. Thanks.

Len Lucas
Internal Audit Director

cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications
Sandy Neerman, Director of Libraries
Marlene Druga, Deputy Finance Director – Financial Services

Internal Audit Division
City of Greensboro

GREENSBORO

March 31, 2010

TO: Sandy Neerman, Director of Libraries

FROM: Internal Audit Division

SUBJECT: Greensboro Public Libraries Review

The Internal Audit Division has conducted surprise petty cash counts and a cash-handling/operations review of the Central Library and its six branches for the period of July 1, 2007 through June 30, 2009. A haphazardly-selected sample totaling an amount of **$85,332.87** was tested. The Library collects money for fines of overdue and lost books, fees for copies, and sells bus passes.

The scope of this review was limited to determining if funds were being properly accounted for, whether adequate internal controls are in place to safeguard the cash and accounting policies and procedures were being adhered to. In order to accomplish this, after the surprise cash count, Internal Audit requested a copy of the library's written policies and procedures and reviewed prior years' review reports. We requested and reviewed a selected sample of the 2008 and 2009 fiscal years' Library Cash Reports and GTA Weekly Bus Pass Inventory Reports. The Library Cash Reports were logged and deposits were traced from the point of origin to the bank account and to the final recording in the general ledger. GTA Weekly Bus Pass Inventory Reports were logged and deposits were traced from the point of origin to the bank account. The tracing of GTA transactions to the general ledger are not within the scope of this audit. Internal Audit visited each of the various Library Branches on two to three occasions to observe and to gain an understanding of the operations and internal control structure surrounding the cash handling. Internal Audit performed a thorough evaluation of the internal control structure to ensure strong accountability and stewardship over the funds.

As a result of our review, we found the following areas of concern and offer our recommendations:

Findings:

- **Internal controls for proper safeguarding of cash are deficient.** The Library is to be commended for the implementation of many of the internal controls suggestions from the prior years' review. However, there are still areas that need improvement. Currently all the libraries, except for the Vance H. Chavis Branch, have a safe. The Chavis Branch is currently using a filing cabinet that locks as a substitute safe. The keys to the filing cabinet are kept in the manager's office. Although the office remains locked, all

employees have access to a key for the manager's office, and therefore, indirectly, also have access to the key of the filing cabinet and cash receipts collected. The Glenwood Library has a key-lock safe. The key to the safe is kept in the manager's office, which remains unlocked during the day and accessible to all employees. Both branches currently have safes on order.

The Central Library, Kathleen C. Edwards Branch, Benjamin Branch, and McGirt-Horton Branch have acquired key/combination safes which can be utilized to require two people to be present to open the safe, enforcing dual control. However, all designees (employees authorized to access the cash registers and safes) of the Edwards, Benjamin, and McGirt-Horton Branch have knowledge of the combination and access to the safe key. This negates the usefulness of having a key/combination safe and creates an opportunity for employees to circumvent dual control. The Dual Control Safe Entry Log is a means to provide evidence of the control taking place and does not ensure that the safe is entered only under dual control.

Per inquiry, Internal Audit was made aware that safe combinations at the branches are not periodically changed, even when a former employee with knowledge of the safe combination terminates or retires. Coupled with the fact that two people are not required to open the safe at the Edwards, Benjamin, and McGirt-Horton Branches, and the Hemphill Branch, which has a combination-only safe, the safes are not secure from entry by former employees or others who may have learned the safe combination. This is even more problematic since alarm codes and locks are not changed. Some or all of these factors combined provide an opportunity that put library cash receipts at risk of misappropriation.

Since the prior review, employees at all the branches with cash register access have been assigned unique pass codes, which must be keyed into the register to gain access. These pass codes also provide accountability for transactions that occur at the register. Employee pass codes are never changed and the pass codes of former employees are still active and can be used to gain access to the register. Also, although in general, employees do not know each other's pass codes, at the Benjamin Branch, two out of five designees, in addition to the Branch Manager, have access to a list of all the pass codes. Pass codes that have been compromised, become known to others, or of former employees, allow unauthorized access to the register. In the case of the Benjamin Branch, where a couple of employees have access to all pass codes, the purpose of pass codes providing accountability for transactions that occurred at the register is negated.

- **The Library does not have an integrated system to handle customer transactions.** Noted in the prior years' review, the computer system that generates the amount of fines and fees assessed to the customer is not linked to the cash register. The library currently generates a Horizon daily cash transactions report at the beginning of each workday which should be compared to and validate cash register totals from the previous day. Internal audit noted that the Horizon Daily Reports and register tapes rarely agree and are usually not reconciled to one another. The current system requires the employee to correctly enter the transaction once in the register and once in the Horizon computer system for the two reports to balance. The reconciliation relies on employees realizing and remembering when they make a mistake when entering the transaction into the cash register or Horizon system. Furthermore, employees who do not have cash register access are able to access the Horizon system to waive fees. If an employee marks an item as "paid" instead of "waived," discrepancies occur. Per inquiry with Central Library staff, it is not possible to track who enters transactions into the Horizon system, leaving the reconciliation a time-consuming and often impossible task to perform

  Additionally, overages and shortages cannot be properly identified without reconciling the register totals and Horizon Reports to each other. Currently, branches are reporting overages/shortages based solely on reconciliation between cash receipts and register totals, not taking into account Horizon Reports which should validate the amount of cash transactions.

- **Written policies and procedures do not adequately address the reporting of overages and shortages.** Overages and shortages are not addressed beyond having each cashier document any discrepancies between the register tapes and cash collected at the end of the shift. These notes are passed on to the person responsible for preparing the cash report, who in turn prepares a memo to the Executive Assistant about any discrepancies. There is a space on the Cash Report to report shortages and overages. However, Internal Audit noted several instances, especially in the Chavis and Hemphill Branches, when overages or shortages were absorbed into the Library Fines instead of being reported separate on the cash report.

- **Some policies and procedures as set forth in the Finance Department Approved Cash Handling Procedures for Library Collections, Bank Deposits, and GTA Bus Pass Deposits are not being adhered to.** Central Library cash receipts and bus pass deposits should be picked-up daily, Monday through Friday, and taken to the bank according to the written procedures. Per inspection of the courier log and cash report receipts signed by the bank, the average number of pick-ups at the Central Library for the period under audit is 3.5 times a week, ranging from 1 to 5 pick-ups a week, and usually

only occurring 3 or 4 times a week. Due to the amounts of cash receipts collected at the Central Library, a deposit must be made daily to adhere to G.S. 159-32 cash limitations.

Per written procedures, designees who prepare the deposit at the various library locations are to send an e-mail containing the deposit amount, bag number, and date of pick-up to the Executive Assistant when a courier pick-up occurs. The Executive Assistant performs a review by matching the e-mail sent from each branch/section to the Cash Reports and validated deposit slips. In the samples tested, there were several instances in which an e-mail was not sent to the Executive Assistant.

A Dual Control Safe Entry Log should be maintained by the libraries, per written procedures, and signed every time the safe is opened or closed by the designee entering the safe and person observing. Internal Audit inspected Dual Control Safe Entry Logs for the period under review at the various branches and noted several missing signatures of either the designee entering the safe or observer acting as dual control. Most notably, the Glenwood and Chavis Branches' Logs were missing signatures, and to a lesser extent the McGirt-Horton and Edwards Branches. The Hemphill Branch was unable to locate any copies of Dual Control Safe Entry Logs prior to August 2007.

- **In some instances, courier logs are not being properly maintained.** Internal Audit's review of the courier logs revealed some instances when dates listed on the logs reflected the Cash Report preparation date instead of the date of courier pick-up and deposit with the bank. The date on the log should reflect the date of transfer of accountability, which occurs at the time of pick-up. Also, the courier logs currently do not have a column to list deposit amounts. The Central Library, Kathleen C. Edwards Branch, and Hemphill Branch record the deposit amount in the right-hand margin. The Glenwood, Vance H. Chavis, Benjamin, and McGirt-Horton Branches do not record deposit amounts on the courier logs at all. The Library is to be commended for no exceptions to missing signatures (transfers of accountability to the courier) for the period of review.

- **Employees sometimes interchange library deposit tickets and GTA deposit tickets.** In spite of the deposit tickets being labeled GTA or with the name of the particular branch, at least one of the samples from the Central Library, Vance H. Chavis Branch, and McGirt-Horton Branch used either a library deposit ticket for a GTA deposit, or vice versa. This results in the deposits not showing up in the correct deposit detail on the bank statement and consequently makes reconciling more time-consuming.

- **Revenues are occasionally recorded to the incorrect general ledger account.** There was one instance when Hemphill Revenues were recorded in the Glenwood Library's section of the Cash Report, and subsequently recorded in Glenwood's general ledger. This caused the revenue for Hemphill to be understated while Glenwood's revenue was overstated.

  There were also two instances when, although deposit information was recorded in the correct sections of the Cash Report, the revenues were still booked to the incorrect branch's general ledger account. This occurred with two deposits for the Kathleen C. Edwards Branch that were recorded in the Glenwood Library's general ledger, and another deposit for library fees (account # 101-5502-01.7780) collected at the Central Library was recorded as library fines (account # 101-5502-01.7320).

- **Deposits with the bank and recording in the general ledger are not made in a timely manner.** Inspection of the cash reports, courier logs, and bank statements revealed that prepared cash reports and deposits were sometimes held over and sat in the safe for a range of 3 to 12 days prior to the deposit being brought to the bank and cash report turned in to the Executive Assistant. Internal audit identified instances of this happening in the McGirt-Horton Branch, Benjamin Branch, Kathleen C. Edwards Branch, and Vance H. Chavis Branch. It is particularly important that deposits are brought to the bank in a timely manner at the end of the month and for those branches which exceed cash receipts of $500 to remain in compliance with G.S. 159-32 cash limitations for daily and end of the month deposits.

  Inspection of courier logs, cash report receipts, and the general ledger revealed that all branches often have a lag over a week long until cash collected and deposited in the bank appears in the general ledger. In a sample tested for the Central Library, Glenwood Branch, and Vance H. Chavis Branch, it took up to 276 days, 237 days, and 124 days, respectively, for revenue from a cash collection to be reflected in the general ledger, causing the revenue not only to be recorded in the incorrect month, but also in the incorrect fiscal year. Recording of revenues in the general ledger needs to be timely so that revenues are recorded in the correct period.

- **Library deposits exceed G.S. 159-32 cash limitation amount.** G.S. 159-32 requires collections and receipts to be deposited daily, unless moneys on hand amount to less than $250. The City of Greensboro has been granted a local modification to this statute that increases its cash limit to a maximum of $500. Most notably, the Central Library and Edwards Branch have not been adhering to the modified cash limit. The Central Library and Edwards Branch exceeded the $500 cash limitation amount in 31 out of 93 samples tested and in 26 out of 48 samples tested, respectively. The Hemphill and Benjamin branches also exceeded the $500 cash limitation amount 5 out of 32 samples tested and 2 out of 30 samples tested, respectively.

- **Month-end and year-end cutoffs are not being performed consistently.** Month-end procedures per the written cash handling procedures require all branches to prepare a cash report and a bus pass report on the last business day of the month and date it as such. Deposits are to be made and reports sent to Collections the same day. G.S. 159-32 requires that "*in any event a deposit shall be made on the last business day of the month.*" In general, all branches are preparing and dating the month-end cash report and bus pass report as of the physical last day of the month; however, cash receipts collected during the day are not included in the month-end cash report. Due to the lag caused by Horizon's processing, cash collected on the last day of the month is included in a cash report and deposit for a subsequent month. Per discussions with Finance during our review, it was established that the Library follows an 8AM today to 8AM tomorrow business day. Month-end reports, therefore, should not be prepared until the end of the physical month-end, so that all cash receipts collected during the month are included in the month-end Cash Report. The month-end Cash Reports should be dated as the work of the final day of the month (i.e. Work of 03/31/10). Deposits should be prepared and deposited with the bank prior to 2PM on the first of the subsequent month. Month-end procedures in the written policies should be clarified to eliminate confusion.

  For the period under review, however, the month-end reports (usually identified as such in the e-mail to the Executive Assistant) were prepared on and dated as of the morning of the last physical day of the month, and did not include cash receipts collected during the day. Most branches had several instances when deposits for the month-end report were not brought to the bank on the last day of the month. The deposit for Benjamin Branch Cash Report dated 11/30/07 was delivered to the bank on 12/03/07. Deposits for Central Library Cash Reports dated 03/31/08, 06/30/08, 02/28/09, and 03/31/09, were not deposited with the bank until 04/02/08, 07/01/08, 03/04/09, and 04/01/09, respectively. Deposits for Chavis Branch Cash Reports dated 08/29/08 and 02/26/09 were not deposited until 09/03/08 and 03/05/09, respectively. Deposits for Edwards Branch Cash Reports dated 12/31/07 and 10/31/08, were not deposited until 01/02/08 and 11/03/08, respectively. The deposit for Hemphill Branch Cash Report dated 02/27/09 was not deposited with the bank until 03/05/09. Deposits for McGirt-Horton Branch Cash Reports dated 01/31/08, 02/29/08, and 12/31/08, were not deposited until 02/01/08, 03/03/08, and 01/02/09, respectively.

  There was also one instance identified at the Central Library when receipts collected on 04/30/08, included in the 05/02/08 Cash Report, were not deposited with the bank until 05/05/08. Bus pass receipts collected on 12/28, 12/29, and 12/31/07 at the McGirt-Horton Branch, included in the 01/02/08 Cash Report, were deposited in the bank on 01/04/08.

The Glenwood Branch is to be commended that all deposits tested relating to month-end Cash Reports were deposited with the bank on the last day of the month, as written procedures require.

During the review of general ledger transactions, Internal Audit found that several cash receipt reports dated for a prior month were being recorded in a subsequent month for all branches. This is especially evident in the last week of any given month. The cash reports are not being consistently submitted to collections by month-end and in particular the month-end report is not being submitted to collections on the last day of the month.

Internal Audit also noted that in one instance, a Hemphill Cash Report dated as of the end of the month was signed for by the courier and bank three days prior to the end of the month. This suggests that the cash report may have been pre-dated in anticipation of month-end. End of the month cash reports should be prepared and dated as of the last business day of the month.

- **A few points in the written policies and procedures need to be updated to reflect actual policy being implemented at the Library.** Although the second point under general procedures was updated to reflect that now six employees and the Branch Manager/Section Supervisor will be designated to have cash register and safe access, the rest of the document has not been updated to reflect a change from four designees to six.

  Per written procedures, the original deposit slip validated by the bank should be returned from Collections to the Executive Assistant. Currently the validated deposit slips are delivered to Finance and are not being kept on file by the Executive Assistant. The written procedures should be updated to reflect actual policy.

  Also, written policies and procedures should be updated to reflect that currently a courier pick-up occurs only twice a week at the Hemphill, McGirt-Horton, Glenwood, and Vance H. Chavis Branches, whereas per the written policies and procedures this should be occurring Monday, Wednesday, and Fridays.

- **Access to bus pass inventory needs to be restricted.** Bus passes at the Glenwood and Chavis Branches are kept in a locked cabinet and drawer, respectively. However, all employees at each branch have access to the keys that unlock the cabinet and drawer, and therefore have access to the bus pass inventory.

Recommendations:

- Access to the safe should be limited to as few employees as necessary. If a branch has a key/combination safe, no employee, with the exception of the Branch Manager, should have access to the key and combination to the safe. Libraries that use key or combination-only safes should consider purchasing a key/combination safe when their safes need replacing. This will ensure that at least two employees are present when the safe is entered, limiting the opportunity for misappropriation. If it is not possible to segregate access to key and combination to enforce dual control due to staffing restrictions, the Library should establish other compensating controls that limit exposure to misappropriation.

  Combinations to the safe should be periodically changed, especially after an employee with knowledge of the safe's combination leaves employment. The Library should also consider periodically changing the alarm code to further building security.

  The Vance H. Chavis Branch currently has a safe on order which will keep cash collected more secure. In the meantime, access to the key of the filing cabinet should be restricted to as few employees as possible. Also, access to the key of the Glenwood Library safe should be restricted.

  Pass codes for registers should remain secret. Each employee with register access should only know their own code and, with the exception of the Branch Manager, not have knowledge of anyone else's code. When an employee with cash register access leaves employment, their pass code should be disabled in the register and not recycled. Furthermore, if an employee's pass code becomes known to others, it should be changed immediately.

- The library should look into acquiring a system that integrates the computer and cash register. The Horizon Daily Reports currently used rarely agree with register totals and reconciliation between the two to validate cash register totals is time-consuming and often not possible. An integrated system would enhance the internal control structure, make it more difficult to subvert or circumvent the system, validate cash collected, and aid in the identification of true overages and shortages.

  In the short-term, as the Library continues to use the current system, the Library needs to be able to account for the difference between the cash register totals and the Daily Horizon Report; otherwise it does not serve its purpose as a source of validation to cash register totals. Furthermore, since the Horizon system tracks accounts receivables, an asset, of fines and fees due to the Library, controls should be put into place to prevent unauthorized overrides of charges. Access to the Horizon system should be restricted to as few employees as necessary. The Library should set up and implement separate usernames and passwords for employees requiring access to the Horizon system, to be

able to track who accesses the Horizon system and maintain accountability for transactions entered into the Horizon system.

- The proper method of reporting overages/shortages should be addressed in the written procedures and employees should be trained in how to correctly report them.

- The Libraries should adhere to the written policies and procedures as approved by the Finance Department. The Central Library should comply with daily deposits being picked up by the courier and delivered to the bank. Daily deposits will also bring the Central Library into compliance with G.S. 159-32 which requires a daily deposit unless the Greensboro modification to the cash limitation of $500 is not exceeded. The Central Library takes in too much cash for fines and fees to not have a daily deposit.

  Library staff should be reminded to send an e-mail to the Executive Assistant after a courier pick-up has occurred as required by the written cash-handling policies. The e-mail provides evidence that a deposit is underway and alerts the Executive Assistant to be looking for corresponding cash reports and supporting documentation.

  The Branch Managers should ensure that dual control is taking place whenever the safe is entered, and that the Dual Control Safe Entry Log is signed by the designee entering the safe and person observing. The log provides evidence of dual control being performed as well as a documentation as to who has entered the safe should a loss occur. Proper maintenance of the Dual Control Safe Entry Log is especially important at the branches where employees have access to both safe combination and key, or locations that have a key- or combination-only safe.

  Dual Control Logs should be retained for a period of at least three years, per document retention policy of the libraries. Internal Audit emphasizes that the Dual Control Safe Entry Log is a means to provide evidence of the control taking place, but does not ensure that the safe is entered only under dual control. Only separation of key and combination duties among a restricted set of staff can ensure that the safe be entered only under dual control.

- Courier Logs can serve as a critical piece of evidence in determining whether the courts grant the City of Greensboro restitution from an employee. As such, the logs should be revised to contain the date of pick-up by the courier, bag number, the total amount of the deposit, signature of the staff member who transfers accountability to the courier, and signature of the courier as acknowledgment of the transfer and receipt of the deposits. Staff should be instructed in filling out the courier logs properly, including that the date

in the courier log should reflect the date of transfer of accountability, at the time the courier picks up the deposit.

- Staff should be instructed on the difference in the location numbers that are encoded on deposit tickets, and should use the correct deposit ticket for Library and GTA receipts. Staff should also be instructed to record cash receipts in the proper section of the Cash Report. A review procedure on the branch level should be implemented and included in the written guidelines to ensure the cash reports, deposits, and supporting documentation are correct when submitted to the bank and Executive Assistant.

  The Library should implement and include written guidelines of review procedures that ensure that revenues reported to Collections are recorded to the correct general ledger accounts. Internal Audit recommends the Branch Managers use Lawson as a tool to review revenues posted to the general ledger on a weekly or monthly basis to ensure that all revenues were accurately recorded in the correct accounts.

- Library staff should be instructed to abide by the written policies and procedures requiring a cash report be prepared, deposits be made, and cash reports be turned in to collections on the last business day of the month and to comply with G.S. 159-32 which states, "*in any event a deposit shall be made on the last business day of the month.*" All deposits for cash reports prepared on the last day of the month should be deposited with the bank on the same day.

- The Library should adhere to the G.S. 159-32 modified cash limit for the City of Greensboro of $500 and schedule additional courier pick-ups of deposits, if necessary, to protect the city's assets. The Central Library should adhere to written policies of daily deposits. The Kathleen C. Edwards Branch should also consider daily deposits due to the amount of cash collected at that location.

- Prepared deposits should not be held over in the safe. Internal Audit recommends that cash reports and deposits should be picked up by the courier on the day of preparation, especially for deposit amounts that are greater than $500 to remain in compliance with G.S. 159-32 cash limitations (Greensboro modification).

  Cash reports should be turned in to Collections prior to month-end to ensure recording of cash receipts revenue in the correct accounting period.

- Update the written cash-handling procedures to reflect actual policy being implemented at the Library. Revise the number of designees from four to six throughout the written policies document to eliminate confusion as to how many designees are allowed per

policy. Update written procedures to reflect that validated deposit slips are not kept on file by the Executive Assistant, as these are maintained by Finance. Also update the stated occurrences of courier pick-ups to reflect that a courier pick-up occurs only twice a week at the Hemphill, McGirt-Horton, Glenwood, and Vance H. Chavis Branches. In instances when enough cash is collected to exceed the G.S. 159-32 cash limitation of $250 (Greensboro modification of $500), as occurred in the Hemphill Branch for the period under audit, additional courier pick-ups should be made to adhere to the cash limit.

- Bus pass inventory, an asset, should be subject to the same safeguarding controls as cash is subject to. Access to bus pass inventory at the Glenwood and Chavis Branches should be restricted to as few employees as necessary. The Central Library accomplishes this by keeping bus pass inventory stored in the register during the day, which limits access to authorized individuals with pass codes, and stored in the safe during the night, which requires dual control to open.

Internal Audit would like to thank the staff members of the Libraries for their courtesy and cooperation shown to us during this review. We request a written response by April 14, 2010. If you have any questions or comments, please call us at 373-2203.

Lynda Frei
Internal Auditor

Len Lucas
Internal Audit Director

cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications
Marlene Druga, Deputy Finance Director – Financial Services

Library Department
City of Greensboro

GREENSBORO

April 14, 2010

TO: Len Lucas, Internal Audit Director

FROM: Sandy Neerman, Library Director

SUBJECT: Library Response to the Internal Audit Recommendations

I would like to thank Lynda Frei of the Internal Audit Division for her thorough review of the Greensboro Public Library's petty cash accounts and cash-handling/operations for the period of July 1, 2007 through June 30, 2009. The Library will implement whatever internal control structures that are needed to ensure strong accountability and stewardship over the funds collected in the Greensboro Public Libraries. In crafting the following response to the report, I tried to balance stewardship over the funds, customer service, resources needed to make changes, safety of employees, and additional support and participation from the Finance department.

This document is the written response requested by Internal Audit in their audit review report of March 31, 2010. The Greensboro Public Library Procedures for Library Collections/ Bank Deposits will be updated by May 30, 2010, and forwarded to the Finance Department for review and approval. This update will reflect and incorporate suggestions made by the auditor in the March 31, 2010 report. Suggested changes, additions or deletions will be made within ten working days following the Finance Department's response, and changes will be implemented immediately upon agreement between Finance and the Library. Further needed changes will be made on an annual basis when necessary. The May update will include the following:

- Remove pass codes of former employees from cash register.
- Change pass codes of cash register routinely and also when someone leaves employment.
- Ensure procedures comply with G.S.159-32 (identifying cash limit and mandatory report/deposit on the last business day of each month).
- Provide detailed instructions on how to report overages and shortages.
- Update frequency of Kathleen Clay Edwards Family Branch pick-up by courier to allow a daily deposit to comply with G.S.159-32.
- Update frequency of Hemphill and Benjamin branch pick-up by courier to every Monday, Wednesday and Friday to comply with G.S.159-32.
- Retain dual control logs for a period of at least three years as per retention policy.
- Include in written procedures that "dual controllers" are also responsible for accuracy of reports.

- Include in written procedures that staff should be instructed to record cash receipts in the proper section of the cash report and provide supporting documentation when submitting reports to the bank and Executive Assistant.
- Revise the number of designees from four to six throughout the written policies document.
- Revise written procedures to reflect that validated deposit slips are not kept by Executive Assistant but are maintained by Finance.
- Update written procedures to reflect that McGirt-Horton, Glenwood and Vance Chavis Branches only have a pick-up twice a week.

The following information is supplied so Internal Audit may understand some of the limitations of Library equipment and software and also to confirm prior agreements with Finance.

Access to safe

Safe combinations cannot be changed by branch librarians but require contracting with the vendor to reprogram combinations. Library employees have and use ID card access to enter the facility. ID cards are de-activated when employees terminate from the City.

Horizon Integrated Library System (ILS) as an accounting system

According to the Library's ILS vendor and staff there are reasons why figures reported by the Horizon ILS do not match the cash register:

- Payments for copies or other non-circulating materials are accepted at the register but not reflected in ILS software.
- Refunds are not handled through the cash register but are reflected in ILS software.

Individual Staff Logins in the Horizon ILS

The client software must be completely closed to prevent someone from using the current login to perform transactions. Although it is possible to log in as a new user while the client is running, the only way to prevent someone from using an existing login if a user steps away briefly is to close the program. The program does not quickly restart which presents a significant barrier to workflow and customer service; therefore we do not recommend this as it will create an inconvenience to library customers.

Overnight (Day End) Processing

The ILS server software is quite complex and handles far more than just financial matters. At the end of the day a routine called "Day End Processing" performs many interconnected functions that all impact the financial aspects of the system. The process requires a minimum of 45 minutes but has sometimes exceeded two hours to complete. Since we balance the cash register receipts to the Horizon cash management report, a staff person would have to remain until the completion of this process in order to produce the cash management report. We are unable to have staff members stay past official closing time.

Last business day of the month processing

Per recommendations from Finance, we are defining our "official business day" as 9:00 a.m. today to 9:00 a.m. tomorrow. As we understand it, this is in compliance with G.S. 159-32. Therefore, the cash collected on the last business day of the month would not need to be deposited by Library

closing the same day, but would be taken to the bank after 9:00 a.m. the next day, once balancing is complete. This method allows compliance with the Statute without requiring staff to remain in Library buildings after closing.

Cash reports turned in to Collections prior to month-end to ensure recording of cash receipts revenue in the correct account period
From consultation with the Finance Department, a "soft" close is performed each month, during the four days following a month-end. From our conversation with the Finance Department procedures will not change.

To ensure internal control of Library and GTA collections, the following will be instituted as soon as Finance reviews and approves the Library's May 30, 2010 document of changes and updates:

- Cash register pass codes will remain confidential. Only Branch Manager and one other person will have pass codes of other employees. When an employee with cash register access leaves employment, his pass code will be disabled in the register. If an employee's pass code becomes known to others, it will be disabled in the register.

- Limited access to safe keys will be maintained at all locations.

- Central Library will have a courier pick-up five times a week, Monday through Friday.

- Procedures and policies will be reinforced with Branch Managers and staff who are responsible for preparing reports and verifying reports. In particular, staff will be reminded that an e-mail must be sent to the Library Executive Assistant after a courier pick-up has occurred. Staff will also be reminded about the differences in the location numbers that are encoded on the deposit tickets from the Library and GTA.

- Branch Managers will ensure that dual control is taking place whenever safe is entered and that the Dual Control Safe Entry Log is signed by the designee entering the safe and the person observing.

- Staff will be instructed in the proper way to fill out the courier logs. The date listed on the courier log should reflect the date of transfer for accountability. A column that indicates the amount listed on the bag will be added. The courier cannot verify the amount in the bag.

- Keying of revenue accounts from the Library Cash Reports is a Collections (Finance) function. The Library business office will use Lawson as a tool to review revenues posted to the general ledger on a monthly basis to ensure that all revenue are accurately recorded to the correct accounts.

- Kathleen Clay Edwards Family Branch will have a pick-up by courier daily, Monday through Friday, to comply with G.S. 159-32.

- Hemphill and Benjamin will have a pick up on Monday, Wednesday and Friday to comply with G.S.159-32.

- Staff will be reminded that prepared reports should not be held in the safe and that the reports should be picked up on the day the report is prepared.

- Access to the bus pass inventory at the Glenwood and Chavis Branches will be restricted to as few employees as necessary by storing the passes in the register during the day and in the safe after Library closing.

- Branch Librarians will conduct spot reviews of cash handling and all report activities required to appropriately meet the cash handling procedures approved by the Finance Department. The Branch Librarian is responsible for the accuracy of all cash handling activities and reports prepared in his or her location.

The detail of the March 31, 2010 report in explaining the areas of concern and recommendations for corrections are most appreciated. The Library's prompt implementation of new procedures will be dependent on the review of the proposed procedures and assistance to modify and meet the Finance Department's approval. To ensure that the Library Department is operating with the most updated cash-handling procedures, it would be helpful to receive annual updates from the Finance Department.

Cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications
Marlene Druga, Deputy Finance Director – Financial Services

Internal Audit Division
City of Greensboro

GREENSBORO

April 16, 2010

TO: Sandy Neerman, Director of Libraries

FROM: Internal Audit Division

SUBJECT: Reply to Library Responses to Review

The Internal Audit Division has reviewed and carefully considered your responses provided to our review dated March 31, 2010. We feel that your responses to our findings and recommendations are sufficient and when implemented will address the areas of concern apart from a few exceptions.

Internal Audit would like to reiterate that sound internal control dictates that the safe be entered only in the presence of another party. Best practice to ensure compliance with dual control requires that no employee, aside from the Branch Manager, should have access to the key and combination to the safe. If unable to segregate duties properly, compensating controls should be established to limit the opportunity for misappropriation.

Still of concern is the access of the safe to inappropriate parties, such as former employees who have knowledge of the safe combination. During Internal Audit's review, it was brought to our attention that several staff members aside from the Branch Manager at the various branches have not only employee ID cards, but also have physical keys which open most doors in the buildings. Turning in physical keys and deactivating employee ID cards is not sufficient as the keys can be duplicated and may still provide access to the building and safe after employment has ended. Also, currently codes for existing alarm systems at the libraries are not changed on a regular basis or upon termination of an employee. If it is not viable to change the safe combination on a periodic basis or after an employee terminates, the Libraries need to establish other measures that ensure safes are not accessible to former employees. Physical keys can be restricted to as few individuals as possible and the Libraries can look into the feasibility of using keys that cannot be easily duplicated. Codes for the existing alarm systems can also be changed.

Internal Audit would also like to stress the importance of submitting Cash Reports to Collections in a timely manner, especially near month-end, so that revenues are recorded in the proper accounting period. Revenues are usually posted to the general ledger within a day or two of the Cash Reports being turned in at Collections and will not require a change in procedures on Collections' or Finance's end.

Upon the next upgrade of the Libraries computer system, the Library should look into the feasibility of integrating the computer and cash register system. The internal control structure

would be enhanced and it would be more difficult to subvert or circumvent the system. The use of user log-ins would provide accountability for transactions processed in the system. During the interim, staff at all branches should continue attempting to reconcile cash receipts with the Horizon Daily Report, which should serve as a source of validation and comparison for cash register totals.

Internal Audit will revisit the Libraries to review the changes that have been made to the procedures and perform tests to ascertain whether the controls put in place are working as they should be to protect the City's assets.

The Internal Audit Division would like to thank you for your appreciative attitude, cooperation, and prompt response to the findings and recommendations. If you have any questions regarding the audit or our recommendations, please contact Internal Audit at 373-2203.

Lynda Frei
Internal Auditor

Len Lucas
Internal Audit Director

cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications
Marlene Druga, Deputy Finance Director – Financial Services