

**PRINCE GEORGE'S COUNTY MEMORIAL LIBRARY SYSTEM
PRINCE GEORGE'S COUNTY, MARYLAND**

**PERFORMANCE AUDIT REPORT
AUGUST 2005**

**OFFICE OF AUDITS AND INVESTIGATIONS
Prince George's County
Upper Marlboro, Maryland**

August 2005

The County Council and County Executive
Of Prince George's County, Maryland

We have conducted a performance audit of the Prince George's County Memorial Library System in accordance with the requirements of Article III, Section 313, of the Charter of Prince George's County, Maryland. Our report is submitted herewith. The scope of the audit and our findings, comments, and recommendations are summarized on the following page.

Successful implementation of some of the recommendations that appear in this report will require action by the Board of Library Trustees, as well as staff of the Prince George's County Memorial Library System.

We have discussed the contents of this report with appropriate personnel of the Library System and wish to express our sincere gratitude to them for the cooperation and assistance extended to us during the course of this engagement.

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County Auditor

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PRINCE GEORGE'S COUNTY
MEMORIAL LIBRARY SYSTEM

SUMMARY OF PERFORMANCE AUDIT

AUGUST 2005

The Office of Audits and Investigations performed an audit of the Memorial Library System in accordance with the County Code. In the performance of our audit, we reviewed the internal controls over fine and fee collections and daily cash operations. We also reviewed purchasing procedures and records, the purchasing process and the data processing function. The major areas of concern addressed in our report are:

- Cash register operation should be limited to one employee or as few as possible, and the cash register key should be maintained by the branch supervisor or an alternate.
- Cash register voids should be properly recorded, accounted for and initialed.
- Cash Reports should be completed accurately and reviewed for accuracy and completeness.
- All cash overages and shortages should be adequately explained and investigated.
- A Library System staff member independent of the receipt or cash handling should verify all revenues collected to deposit amounts.
- Cash receipts need to be submitted timely.
- Cash Reports should be reconciled by the Branch Managers to financial reports provided by the Library System's Finance Office
- Another Library System staff member should be trained in performing the purchasing function to assist in the purchasing activities.
- Purchasing duties and financial processing steps for purchasing need to be segregated.
- Dollar thresholds need to be established for verbal and written quotes.
- Blanket purchase orders need to be supported by new quotes when renewed and supported by formal documents.
- Specific services contracts should be supported by formal written agreements or contracts.
- Written procedures needed regarding year-end purchases including year-end purchasing deadlines.
- Data processing written procedures need revised regarding the allowable uses of personal computers, confidentiality of data files, backing up files, and the frequency of changing passwords.
- Another Library staff member should be trained on maintaining the Library System's computer hardware and software applications.

We wish to thank the Memorial Library System staff for their assistance and cooperation. We are available to provide assistance in implementing the recommendations contained in this report, or in any other area where the Agency may have concerns or questions.

CHAPTER 1

INTERNAL CONTROLS REVIEW

INTRODUCTION AND SCOPE

The Prince George's County Memorial Library System (Library System) is responsible for implementing and maintaining controls over fine and fee collections, and daily cash operations for the County's eighteen public library branches.

Library branches receive monies for book and video rentals, fines, book sales, library cards and other fees. Cash registers are used to track monies collected at the library branches. Cash Report forms are used to record monies received by the library branches and to categorize the receipts by transaction type. The Cash Reports and monies are forwarded to the Library System's Finance Office where deposit slips are prepared and monies are deposited at the bank. During fiscal years 2002 and 2003, the Library System collected approximately \$741,000 and \$848,000 in fines and fees, respectively.

During our audit, we reviewed the Library System's internal controls related to fine and fee collections. We also reviewed the daily cash operations procedures. We noted certain areas where improvements were needed to procedures and controls.

FINDINGS, COMMENTS AND RECOMMENDATIONS

Cash Register Use

During our prior audit of the Library System, we found that the number of employees permitted to operate the cash register had not been limited to one employee or as few as possible. During our current audit, we visited nine library branches and found the number of

employees permitted to operate the cash register had not been limited as recommended in our previous audit report. At one library branch, we noted 18 employees were authorized to operate the cash register. At other library branches, we found as many as 12 employees, respectively, were authorized to operate the cash registers. Further, we noted there was no written procedure limiting the operation of cash registers to as few employees as possible.

We recommend:

1. The Director of the Library System develop a written procedure limiting the operation of the cash registers to one employee, or as few employees as possible per shift, and ensure compliance by the Branch Managers with this procedure.

During our audit, we noted there was no written procedure limiting the access to the cash register key to library branch supervisors. We learned through library branch staff interviews, eight of the nine library branches maintain the register key in the cash register drawer which allows all employees who are authorized to operate the cash register to have unlimited access to the cash register key. The register key is used to operate the register and to perform special functions such as voids, running the X-tape (summary tape of cash register transactions) and the Z-tape (totals cash register transactions and clears register for the next day's transactions). Access to the register key should be restricted to the library branch supervisor or an alternate authorized to perform the special functions. We recommend:

2. The Director of the Library System develop a written procedure restricting access or physical possession of the cash register key to library branch supervisors or an alternate.

During our audit, we learned that five library branches closeout their registers and count monies in the morning. According to Library System procedures, cash registers should be closed out at the end of the day. The procedure prevents erroneous transactions being

recorded in the register after the business day ends and ensures a timely count of monies. We recommend:

3. The Branch Managers comply with Library System procedures by closing out cash registers and counting monies at the end of each day.

We reviewed cash register journal tapes to determine if voids were being properly noted and accounted for. Of the ten items tested, three journal tapes had recorded a void. None of these voids had been properly initialed. Also, we found voids were not always recorded through the cash register but manually deleted from the register tape. To ensure proper controls over the void process, we recommend:

4. The Branch Managers or designee properly record all voids in the cash register, account for all voids, and initial all records.

All monies are forwarded to the Library System's Finance Office for deposit. The monies are accompanied by a Cash Report form, which categorizes the various transactions that correspond to the cash receipts. During the course of our review, we noted there were a considerable number of mistakes made on these forms including mathematical errors and a categorization of the monies was being omitted. We reviewed 535 Cash Reports prepared during fiscal year 2003 and found 205, or 38.3% of the Cash Reports had mistakes.

Additionally, there were 327 instances in which the monies were not categorized on the Report.

We also determined there is no written procedure requiring the library Branch Managers to review and initial the Cash Reports for accuracy and completeness. The Library System has a written procedure requiring that "staff persons initial the 'cash submission' box after the totals are entered". This procedure satisfies the verification of monies by two persons. We determined that that the verification requirement is only being complied with at

a rate of 20%. In order to strengthen controls related to the depositing of cash receipts, we recommend:

- 5. The Director of the Library System develop a written procedure requiring the Branch Managers or their designee to review Cash Reports for accuracy and completeness, and initial the Cash Reports to denote that the Cash Reports were reviewed.**
- 6. The Branch Managers ensure that Cash Reports are properly and accurately prepared and the categorization of monies to be deposited is recorded on the Cash Reports.**
- 7. The Associate Director for Branch Services, along with the Accounting Supervisor, review Cash Reports periodically to ensure Branch Managers comply with the written procedure requiring them to review Cash Reports.**

During our review of the Cash Reports, we tested for discrepancies between the cash register records and the monies that were actually in the cash drawer and submitted to the Finance Office for deposit. We found differences between the cash register records and the actual cash drawer amount in 259 instances or 48.4%. Library branch staff did not provide proper explanations for these overages and shortages, and explanations at times were not written in a serious manner. Additionally, the Finance Office does not investigate these discrepancies in detail. In order to strengthen cash controls, we recommend:

- 8. The Branch Managers adequately explain all cash overages or shortages.**
- 9. The Finance Office, Accounting Supervisor thoroughly investigate differences between the cash register's balance and the amount actually submitted for deposit by the Library Branch.**

We learned through library branch staff interviews, five library branches do not maintain cash register X-tapes that are run at the end of the day. We found there is no written procedure requiring the library branches to maintain the X-tapes, however, some library branches maintain them for three years or more. Overall, we found 328 X-tapes, or 61.3%

were not available for review. These tapes are important for recordation and comparison purposes. We recommend:

10. The Director of the Library System develop a procedure requiring the Branch Managers to maintain the cash register X-tapes for a minimum of three years.

Collection Transmittal

During our audit, we learned there was no written procedure concerning the verification of library branch collections to amounts deposited at the bank by the Finance Office. We note that the Accounting Supervisor does reconcile deposits to bank records. To ensure accurate recordation of collections and deposits, we recommend:

11. The Director of the Library System develop a procedure which requires a staff member independent of the receipt or cash handling to verify all revenues collected to deposit amounts. This verification should be documented.

During the review of the Cash Reports, we tested the timeliness of cash receipts being forwarded to the Finance Office for deposit. We used three days as a reasonable timeframe to deposit funds, and found 236 instances out of 524, or 45.0%, where deposits were in excess of three days. In one case, we found that cash receipts were deposited in 13 days. All deposits should be made within three days, or at minimum once a week for amounts less than \$50. In an effort to strengthen cash controls, we recommend:

12. The Branch Managers submit cash receipts to the Finance Office for deposit in a timely manner.

During our review, we learned that branch managers do not receive any financial reports from the Library System's Finance Office. In an effort to strengthen internal controls over revenues collected at the library branch level, the library branch staff should determine, on a monthly basis, whether all collections transmitted by them to the Finance Office are properly recorded. We recommend:

- 13. The Director of the Library System establish a written procedure requiring the Library System's Finance Office to supply the library branches with monthly financial reports generated from the financial system which reflect revenue collections.**
- 14. The Director of the Library System instruct Branch Managers to reconcile the Cash Report copies to the financial reports supplied by the Library System's Finance Office, and to report any discrepancies to the Director of the Library System or a designee for investigation and appropriate action.**

Donated Books

The library branches often receive donated books that are to be sold at discounted prices usually via the book cart. We determined that no inventory controls are in place and no running balance of books sold is being kept. In order to maintain control over donated books and their subsequent sale, we recommend:

- 15. The Branch Managers maintain an accurate inventory count of all books donated to the various branches.**

CHAPTER 2

PURCHASING FUNCTION

INTRODUCTION AND SCOPE

The Library System's Administrative Services Division is responsible for the purchasing function. All purchases are requested through the purchasing office except for books and library materials for the branches. Library System units and branches submit verbal and written requests for purchases. Items and services are acquired through purchase orders, blanket purchase orders, credit card and petty cash purchases. In fiscal year 2003, the Library System issued 652 purchase orders and blanket purchase orders.

During our audit we reviewed the purchasing procedures and process for adequacy and completeness. We reviewed purchasing records and financial records for adequacy and accuracy.

FINDINGS, COMMENTS AND RECOMMENDATIONS

Purchasing Process

During our audit of the purchasing function, we learned that only one person performs the purchasing function which includes obtaining quotes, analyzing quotes, preparing purchase orders or blanket purchase orders, and maintaining files and records. No other staff member is specifically assigned or trained to perform the purchasing function. Another Library System staff member should be trained to carry out the purchasing function to ensure that this function is continuous in the event the current staff member retires or becomes ill for an extended period. Furthermore, the current purchasing function workload is also quite extensive for one staff member. We recommend:

- 1. The Director of the Library System train another staff member in performing the purchasing function. This staff member should be assigned to the purchasing office to assist in performing purchasing activities on at least a part-time basis. The Director should consider hiring additional staff to support the purchasing function.**

The staff member who performs the purchasing function enters the purchase orders into the financial system, which encumbers the funds at that time. The staff member receives and reviews invoices for accuracy and submits the invoices (once approved by management) to the Finance Office for payment. The checks are prepared by the Finance Office and sent to the purchasing office to obtain signatures on checks. The Finance Office mails the payments. From our review of the purchasing function, one individual should not perform all these duties and the purchasing process steps discussed in the previous paragraph. The duties should be segregated between different staff and different offices. We recommend:

- 2. The Director of the Library System segregate the purchasing duties and financial processing steps for purchases so that no one or two persons are performing all the functions. Again, the Director should consider hiring additional staff to support the purchasing function.**

Documentation maintained by the purchasing office for purchases includes the requests for purchase, price comparison sheet, purchase order, and any specific contract or agreement. During our review of the purchasing records, we found that purchase order documentation is not maintained together for each purchase order. Purchase orders are maintained in one file, price comparison sheets are in another file, and contracts or agreements are normally in a separate location. All corresponding documentation related to a purchase order should be maintained together. We recommend:

- 3. The head of the Administrative Services Division maintain all corresponding documentation together for each purchase order/blanket purchase order.**

We learned that the Finance Office does not receive a copy of purchases orders until the invoice has been received and forwarded to the Finance Office. Once a purchase order has been established, a copy should be forwarded to the Finance Office. Although this is required in the purchasing procedures, we determined this was not being done. We recommend:

4. The Director of the Library System take steps to ensure that purchase orders are forwarded to the Finance Office as stipulated in the purchasing procedures.

During our review of purchase orders, we could not locate a price comparison sheet for many purchases. We reviewed 37 purchase orders and were unable to locate the price comparison sheets for 22 purchases, or 59.5%. We further note that there were only 111 price comparison sheets, or 17.0%, on file for 652 purchase orders. We also could not locate the awarded vendor quote for 10 of the 37 purchases. According to Library System procedures, price comparison sheets should be completed for purchases to document the quotes provided and support the selection of the vendor that best met the price and item specifications. We recommend:

5. The head of the Administrative Services Division periodically review purchasing records to ensure that a price comparison sheet is completed for each purchase.

Since price comparison sheets and quotes were unavailable, we were unable to determine what type of quotes were received (written or verbal). From our review of the purchasing procedures, there is no specific written limit established as to when verbal or written quotes should be obtained. Library System staff informed us that written quotes should be obtained for purchases of \$1,000 or more. We also learned that written requests for purchases are not maintained on file. Requests should be documented to show who requested the purchase and who approved the initial request. Purchasing procedures should include

these guidelines to ensure that adequate documentation is maintained to support each purchase. We recommend:

- 6. The Director of the Library System revise the purchasing procedures to provide dollar thresholds for verbal and written quotes. The procedures should also include that requests for purchases be documented and maintained in the purchasing records.**

The Library System uses blanket purchase orders (BPO) to purchase various items and services. We reviewed the documentation for 15 blanket purchase orders and could not locate the contracts or agreements for 11, or 73.3% of the BPO's tested. We determined that many BPO's that expired were renewed from the prior year. Once a BPO expires, new quotes need to be obtained according to Library System procedures. We also noted that BPO's were established for services such as trash removal, landscaping, custodial services, and photocopier leases. These types of purchases should be written as formal agreements that protect the Library System and specify the services provided. We recommend:

- 7. The Director of the Library System require that when blanket purchase orders are renewed, new quotes are obtained and blanket purchase orders are supported by a formal document, written quote, agreement or contract.**
- 8. The Director of the Library System require formal written agreements/contracts for purchases of specific services that are to be provided on a constant stipulated basis.**

During our review of purchase orders and BPO's, we noted that they were not written in detail specifying the service or item being purchased. Written quotes, contracts, purchase orders or agreements need to be available to support what is being purchased. These documents need to be specific detailing what the vendor should provide. The Library System lends itself vulnerable to losses when a vendor does not adequately provide services and there are not support documents detailing the purchase requirements and specifications. We recommend:

9. The Director of the Library System require that purchase orders provide specific detail as to the items or services being purchased and/or reference to specific quotes, agreements or contracts.

The purchasing office maintains an Internal Purchase Order Numbers log that lists purchases by purchase order number, vendor, service or item, amount purchased, when paid, and other data. From our review of this log, we noted that 23.3% (152 out of 652) of the purchases were completed in June. We also noted that purchases are made well past the end of the fiscal year but paid out of the prior fiscal year funds. We questioned Library System staff regarding the cut off point for purchases at the end of a fiscal year. We were told different cut off dates by staff and found that invoices were received in August for purchases made after June and paid out of prior year funds.

Under general acceptable accounting principles, purchases should not be made after the fiscal year end. Purchases can be made prior to year-end with funds being encumbered and service provided after year-end. We recommend:

10. The Director of the Library System establish, according to general acceptable accounting principles, specific procedures and purchase deadlines as to when purchases can be made at year end and when those purchases can be paid out of the current fiscal year's funds.

11. The head of the Administrative Services Division review year end purchases to ensure that staff comply with the purchasing deadline established by the Director.

During our audit, we reviewed the credit card procurement process. Credit cards are only assigned to the Library System's Director and the Associate Directors, and mainly used for travel and conferences. We learned that a credit card may be provided to another Library System staff member in the near future. From our review, we found that the procedures do not specifically state what can and cannot be purchased with the credit cards, that quotes

should be obtained when possible, who should approve purchases, who monitors purchases and approves payments, and how incorrect charges should be rectified. We recommend:

- 12. The Director of the Library System revise the credit card program procedures to include directions regarding allowable purchases; obtaining quotes; who authorizes purchases, monitors purchases and approves payments; and rectifying incorrect charges.**

Monitoring Process

During our audit, we discussed with Library System staff what steps were taken to monitor costs. The head of the Administrative Services Division receives a monthly report from the Finance Office that lists the year-to-date expenditures for each account, the amount budgeted and the current balance. However, the report does not show the encumbrances to date. The head of the Administrative Services Division receives an encumbrance list periodically from the Finance Office. Listing the encumbrance data on the monthly report would provide more information to adequately control, monitor and maintain expenditures. This data provides management with adequate information to prevent over-expenditures and exceeding the approved budget. We recommend:

- 13. The head of the Administrative Services Division request the Accounting Supervisor to include encumbrances in the monthly expenditure report.**

According to the Accounting Supervisor, the financial data processing system provides various reports for monitoring expenses such as a purchase order register, a statement of revenue and expenses, a report of expenditures by vendor, and various other reports. The Accounting Supervisor can also design other reports by selecting specific data fields from the accounting system and by specific time periods. Some of the reports maintained by the purchasing staff member are duplicative of the reports that can be

generated from the system such as a check register and purchase order register. To eliminate duplicative efforts by the purchasing staff, we recommend:

14. The Director of the Library System determine what purchasing records or logs can be replaced with reports generated by the financial system.

We also learned from the Accounting Supervisor that the accounting system does not flag possible duplicate payments. The accounts payable unit has no monitoring system for payments to ensure that there are no duplicate payments. We recommend:

15. The Director of the Library System have the financial system enhanced to flag payments that may be duplicate. A report should be generated and reviewed to determine there are no duplicate payments.

CHAPTER 3

DATA PROCESSING

INTRODUCTION AND SCOPE

The Library System uses custom software applications for their book circulation, payroll function, personnel function, web sites, mail service, accounting function, library card member records and other services. The software applications include GEAC Plus, WordPerfect Office 2002, Netterm 4.3, Symantec Client Security 2.0, MS Office 2000 and various server software applications. The computer hardware and software applications are maintained by a Library System staff member and minimally by contractors.

During our audit, we reviewed the adequacy of technical support, data processing security, software and equipment replacement, restoration and fire protection, and data file maintenance.

FINDINGS, COMMENTS AND RECOMMENDATIONS

The Library System has procedures regarding the System's E-mail, internet and voice mail services that cover personal use, password security, and the use of the services. Staff have been required to read the procedures and sign that they have read and fully understand the requirements.

During our audit, we learned that there are no specific written procedures covering the use of personal computers and software applications, allowable uses, and confidentiality of data files and records. Although Library System staff stated that employees are aware of how the systems and software applications are to be used, it is necessary that staff acknowledge in writing their understanding of the policies and procedures. We also learned that employees have not been required to read and sign a record indicating they understand the confidentiality

restrictions contained in Section 10-616 of the State Government Article of the Annotated Code of Maryland. Although Library System staff are aware of the confidentiality of data/files and the use of systems, staff need to acknowledge this confidentiality. We recommend:

- 1. The Director of the Library System revise the procedures regarding the use of all personal computers and software applications, the allowable uses of processing systems, the confidentiality of data files and records, and require staff to sign an acknowledgement of the confidentiality restrictions contained in Section 10-616 of the State Government Article of the Annotated Code of Maryland.**

The Library System's main computer hardware and software applications are located in the Administrative Office in the Hyattsville Branch Library, the Largo Government Center (LGC) building, and the Largo/Kettering Branch Library. Computer hardware for the Library System's main software applications at the LGC are in a climate controlled environment with fire protection. The Largo/Kettering Branch Library has fire protection for the computer hardware and cataloging/circulation software applications. The Library System's computer hardware and software applications for human resources and financial activities, however, are not protected at the Administrative Office, and if destroyed, would have a significant impact on their operations. We recommend:

- 2. The Director of the Library System take steps to install fire detection and suppression systems, and moisture detectors (where applicable) in unprotected areas where computer hardware is housed.**

We also determined that written procedures do not include steps for staff to follow in the event of fire or other incidents at locations housing computer hardware for protecting equipment, data files and documentation, and for ensuring the safety of staff. We recommend:

- 3. The Director of the Library System develop written procedures for staff to follow in the event of fire or other incident at agency locations housing computer hardware. The procedures should include methods for protecting equipment, data files, and documentation and for ensuring the safety of staff.**

During our audit, we learned that data and files are backed up nightly for the Library System's major software applications. Staff have also been advised to periodically back-up their files on personal computers. Back-up procedures are currently not documented. We recommend:

- 4. The Director of the Library System develop written procedures which require computer system users to prepare back-up copies of their files and to store them in locations different from where the originals are kept. The procedures should specify the desired frequency of producing back-up copies, and identify the location(s) where they should be stored.**

The Library System has various levels of access codes and passwords for their main computer systems. Division heads and the staff member responsible for maintaining the computer systems periodically change the codes and passwords. Library System staff have also been advised by administration to periodically change their codes and passwords. Library System staff stated that there is no written policy on how frequently to revise codes and passwords. We recommend:

- 5. The Director of the Library System develop a written policy requiring that passwords assigned to staff for computer systems are changed at specific time intervals and that passwords are kept confidential.**

During our audit, we learned that there is only one staff person who is responsible for maintaining the Library System's computer hardware and software applications. While the current staff member is very knowledgeable and well trained, we consider this reliance upon a single trained resource to be detrimental to the long-range efficiency of the Library System functions. We recommend:

6. The Director of the Library System should identify an additional staff member to receive training on maintaining the Library System's computer hardware and software applications and that this individual should then be designated by the Director to share the maintenance responsibilities with the current designee.