



Office of the City Auditor
Review of Library Revenue Collection Procedures

Report Date: June 21, 2012



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

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EXECUTIVE SUMMARY

Introduction

As part of our annual audit plan, we reviewed the Libraries' revenue collection processes at each of the City's libraries. The Virginia Beach Public Library System supports the educational and leisure needs of citizens with a system of eight area libraries, a Central Library, a Bookmobile, the Wahab Public Law Library and Special Services for the Blind and Visually Handicapped. Although mainly supported by general fund revenues, the Virginia Beach Libraries collected \$518,264 and \$454,428 in fines, fees and facility use charges in FY11 and FY12, respectively.

Purpose and Scope

The purpose of our review was to assess the adequacy of controls over the collection, processing and recording of revenues collected at the libraries. Our audit covered the Libraries' policies and procedures in place as of January 1, 2012. We tested revenue collected, reported and deposited during the one month period of January 1, 2012 through January 31, 2012 at nine libraries. We did not review revenue collections at the Wahab Law library, accounts receivable or the process and controls related to the forgiveness of fines.

Summary of Findings

In conducting our review, we found:

- Opportunities exist to reduce the risk of loss, probability for errors and duplication of effort through implementation of the point-of-sale capabilities of SIRSIDynix Symphony Workflows collection and customer management system.
- Additional oversight and monitoring of revenue collection processes would ensure the completeness of deposits and accurate posting to the proper revenue account codes.
- Appropriate recording of overages/shortages would help to ensure proper reporting of revenue.
- Voided and no sale transactions need to be adequately supported, approved and monitored to enhance accountability and reduce the risk of loss to the City.

Conclusion

Based upon the results of our review, we believe that the processes and controls governing fee collection at the libraries are adequate, except as noted above and within. Management can enhance these processes and improve efficiency by implementing our recommendations related to use of point-of sale capabilities of the libraries' automated system; ensuring proper documentation and monitoring of at-risk transactions, such as *VOIDS and NO SALES*; proper reporting of cash overages/shortages; and additional oversight and monitoring of the process.



Office of the City Auditor
Transmittal Letter



Date: June 21, 2012
To: James K. Spore, City Manager
Subject: Review of Library Revenue Collection Procedures

I am pleased to present the report of our review Library Revenue Collection Procedures. The results of our review are provided in this report. Findings considered to be of insignificant risk have been discussed with management. We completed our fieldwork on May 11, 2012. The results of this review will be provided to City Council through the City's Audit Committee.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to commend personnel from the Libraries for their courtesy and cooperation extended to us during the review. It should also be noted that management agreed with our findings and recommendations and have promptly implemented most of them prior to the issuance of the report.

If you have any questions about this report or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Cindy Curtis, Deputy City Manager
Marcy Sims, Director, Libraries



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Purpose

The purpose of our review was to assess the adequacy of controls over the collection, processing and recording of revenues collected at the City's libraries.

Scope and Objectives

The objectives of our review were:

- To gain an understanding of the procedures and related controls associated with the collection and processing of revenues at the City's libraries.
- To determine whether those procedures and controls are effectively designed to reduce the risk of loss and/or misappropriation.
- To determine whether cash refunds are properly authorized and documented and that voids and no sales are legitimate.

Our audit covered the Libraries' policies and procedures in place as of January 1, 2012. We tested revenue collected, reported and deposited during the one month period of January 1, 2012 through January 31, 2012 at the nine City Libraries. We did not review revenue collections at the Wahab Law Library, accounts receivable or the process and controls related to the forgiveness of fines.

Methodology

To accomplish our objectives, we performed the following procedures:

- Reviewed Libraries' policies and procedures regarding collection, deposit and recording of fees and other monies, and the processing of refunds, voids and no sales.
- Met with appropriate staff at each library to discuss current policies and procedures related to revenue collection.
- Obtained an understanding of opening, operational and closing procedures at each of the City's libraries.
- Reviewed internal controls through inquiry and examination of documents.
- Examined procedures related to the safeguarding of cash received.
- Examined a sample of deposit records and supporting documentation at the Central, Bayside, Great Neck, Kempsville, Oceanfront, Princess Anne, Pungo-Blackwater, South Rosemont Youth and Windsor Woods libraries to ensure compliance with policies and procedures.
- Compared revenue reported via the cash registers to revenue reported in the libraries' automated system.
- Selected and tested a sample of cash refunds for accuracy and compliance with policies and procedures.
- Made recommendations to improve processes, increase efficiency and strengthen the internal controls associated with revenue collection at the City's libraries.



Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.



Background

The Virginia Beach Public Library System supports the educational and leisure needs of citizens with a system of eight area libraries, a Central Library, a Bookmobile, the Wahab Public Law Library and Special Services for the Blind and Visually Handicapped.



The Virginia Beach Public Libraries provide free and equitable access to resources and educational experiences to enrich lives and the community.

The Virginia Beach Public Libraries assess fines of 25¢ per day on overdue library material¹. If the material is returned on the first day after the due date, no fine is assessed. The maximum fine per item is \$10.00. If multiple overdue items are returned on the same date, the maximum fine that will be assessed is \$45.00. Customers with fines of \$45.00 or more on their account for over 45 days will be referred to our collection agency.

The department uses an automated application, SIRSIDynix Symphony Workflows, for collection and customer account management. The system does not interface with the cash registers. Although mainly supported by general fund revenues, the Virginia Beach Libraries collected \$518,264 and \$454,428² in fines, fees and facility use changes in FY11 and FY12, respectively. Table 1 provides a comparison of revenue by location.

Table 1 General Fund Revenue by Location

Location	FY11 Total	FY12 Total
Bayside Area	\$42,702.78	\$36,809.54
Central Library	\$202,523.83	\$186,926.97
Great Neck Area	\$30,374.95	\$27,159.55
Kempsville Area	\$81,746.09	\$72,632.81
Oceanfront Area	\$31,227.53	\$26,310.56
Princess Anne	\$58,824.13	\$51,758.62
Pungo-Blackwater Area	\$7,542.14	\$6,677.27
South Rosemont Youth	\$18,334.07	\$13,169.21
Windsor Woods Area	\$23,683.82	\$21,264.34
Other Library Programs	\$21,304.68	\$11,719.16
Total Fines and Fees	\$518,264.02	\$454,428.03

¹ Overdue items checked out from the Bookmobile accrue fines at the rate of 25¢ per week per item. All fine maximums remain the same.

² Reflects the department's FY12 General Fund revenue posted to the City's General Ledger through June 20, 2012.



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We examined deposit records and supporting documentation for January 2012 at the Central, Bayside, Great Neck, Kempsville, Oceanfront, Princess Anne, Pungo-Blackwater, South Rosemont Youth and Windsor Woods libraries to ensure compliance with the department's policies and procedures governing cash handling. During the period of our review, the libraries processed 8,451 transactions totaling \$43,717. Based on our analysis, we determined that cash collections, refunds, voided and no sale transactions presented the most risk.



Findings and Recommendations

Finding 1: Reduce risk of loss, probability for errors and duplication of effort

The libraries use an automated application, SIRSIDynix Symphony Workflows, for collection and customer account management. The system does not interface with the cash registers. When a customer pays a fine or fee, the staff member must first record the payment in the automated system and then, process the same transaction on the cash register. If the customer pays with a credit or debit card, the transaction is processed a third time, as the credit card processor does not interface with either the automated system or the cash register.

Monies received are reconciled to the Cash Register Z-Tape daily. However, the libraries do not reconcile payments processed in SIRSIDynix Symphony Workflows to the Z-Tapes produced by the cash registers, thereby increasing the risk of errors as well as presenting opportunities for misappropriation of funds.

At the end of the day, payment totals from the SIRSIDynix Symphony Workflows should equal the amount receipted through the cash registers. For our test period (January 2012), payments for library fines and fees processed through SIRSIDynix Symphony Workflows exceeded those processed through the cash registers by \$1,064.61 or 3.2%. The table below provides a comparison of the revenue reported in the automated system and receipted through the cash registers for our sample period, January 2012. Revenues derived from Meeting Room Rentals, Printer/Copier Fees and Donations are currently processed only in the cash registers.

Table 2 Library Revenue Comparison for January 2012

Type	Per SIRSIDynix Symphony Workflow		Per Cash Registers	Difference	%
Fines and Fees	\$	34,244.74	\$ 33,180.13	\$ 1,064.61	3.2%
Meeting Room Rental		n/a	\$ 3,865.00		
Printer/Copier Fees		n/a	\$ 5,690.93		
Gift Fund		n/a	\$ 980.62		
TOTAL	\$	34,244.74	\$ 43,716.68		
NOTE: Meeting Room Rentals, Printer/Copier Fees and Donations are currently processed only in the Cash Registers					



Recommendation

- 1.1 We recommend management explore the implementation of the automated system's point-of-sale capabilities to streamline processes, eliminate discrepancies and reduce duplication of effort.

In the meantime, management should implement procedures to regularly reconcile the revenue processed through SIRSIDynix Symphony Workflows to the Z-Tapes produced by the cash registers.



Finding 2: Strengthen oversight and monitoring of revenue collection

To ensure strong internal controls over cash handling, to safeguard against loss and to meet the City's obligation to the community as stewards of public resources, the following elements of internal controls must be adhered to:

- Proper segregation of duties
- Proper safeguarding of monies
- Independent reconciliation of deposit documents to receipts
- Management oversight and review of cash handling processes and personnel

Cash handling duties are generally divided into three categories – the receiving of cash, the depositing of cash, and the recording of revenue. The ideal is for all three duties to be performed by different individuals. In the Virginia Beach libraries, the depositing and recording processes are performed by the facility's Administrative Assistant. The Administrative Assistant also provides the financial data for the Monthly Management Report.

Library Managers and/or Library Supervisors, may review the Monthly Management Report prior to submission, however, few review the supporting documentation as well.

Recommendation

- 2.1 We recommend that Libraries perform a monthly reconciliation of deposits to revenue posted in InSITE to ensure the completeness of deposits and accurate posting to the proper revenue account codes. All discrepancies should be properly investigated and resolved.

This reconciliation should be performed by someone independent of receiving and depositing of monies.



Finding 3: Appropriately record overages/shortages to ensure proper reporting of revenue

Currently, when actual cash collected does not equal the revenue reported on the cash register's Z-Tape, the Libraries' *Cash Handling Reconciliation Procedures* require cash overages to be rung into the cash register as a Fine. Adjustments for shortages are not made in the register, but documented in the supporting documentation. The amount reported as Fines revenue on the Library Deposit Record is reduced by the amount of the shortage. This results in misstatement of revenue, and makes it difficult to identify trends and issues associated with cash collections.

Recommendation

- 3.1 We recommend differences between cash collected and revenue reported be recorded by posting the difference to the City's Cash Over/Short Account (605999) to ensure proper recording of revenue. This account should be added to the Library Deposit Record to facilitate its use.



Finding 4: Ensure voided and no sale transactions are adequately supported, approved and monitored

We reviewed revenue collections for the month of January 2012. During the period of review, January 1, 2012 through January 31, 2012, the libraries processed 8,451 transactions totaling \$43,717. *Voided* transactions amounted to 2% of the total number of transactions. *No Sale* transactions represent 10% of the total. A summary of the January 2012 transactions by Library is provided in the table below.

Summary of Transactions By Library of Sample Period- January 2012										
Library	Transactions		Voids		No Sale		Overages		Shortages	
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
Bayside	901	\$3,591.28	11	\$193.90	93	n/a	1	\$0.05	3	\$3.20
Central	2,021	\$16,497.38	56	\$684.29	118	n/a	7	\$5.52	8	\$2.85
Great Neck	733	\$3,068.11	5	\$97.79	70	n/a	5	\$1.22	2	\$0.55
Kempsville	1,442	\$7,313.36	22	\$227.75	97	n/a	2	\$0.21	2	\$0.60
Oceanfront	920	\$3,254.13	10	\$64.52	113	n/a	4	\$0.50	2	\$0.05
Princess Anne	1,138	\$5,600.48	22	\$1,336.73	53	n/a	2	\$1.01	5	\$10.80
Pungo-Blackwater	128	\$538.29	0	\$0.00	16	n/a	0	\$0.00	0	\$0.00
South Rosemont	436	\$1,424.73	20	\$20.83	13	n/a	0	\$0.00	3	\$20.20
Windsor Woods	732	\$2,428.97	14	\$458.10	235	n/a	1	\$0.01	5	\$62.83
Totals	8,451	\$43,716.73	160	\$3,083.91	808	n/a	22	\$8.52	30	\$101.08

Reasons for *Voids* and *No Sale* transactions were not consistently documented or apparent from the receipts, nor were receipts consistently maintained for documentation purposes. Additionally, receipts for *Voids* and *No Sale* transactions were not consistently initialed by the staff member. Library policies and procedures do not address the handling of *Voids* and *No Sale* transactions. Risk of not identifying concealment of missing cash is heightened when insufficient procedures exist to monitor *Voids* and *No Sale* transactions.

Recommendations

We recommend the Libraries:

- 4.1 Design a standard form to ensure all *Voids* are properly documented and approved.
- 4.2 Require all *Voided* transactions be approved by someone other than the employee processing the transaction. Review/approval should be indicated on the standard *Void* form.
- 4.3 Notate the reason for *Voids* and maintain the signed receipts with the standard *Void* form. This provides accountability and possible resolution in the event of a discrepancy.



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- 4.4 Notate the reason for each *No Sale* transaction and maintain the signed receipts with the daily paperwork.

- 4.5 Monitor *Voided* and *No Sale* activity by cashier on a regular basis. Excessive *Voided* and *No Sale* activity can be an indicator of improper training or act as a red flag for inappropriate access to monies.



Conclusion

Based upon the results of our review, we believe that the processes and controls governing fee collection at the libraries are adequate, except as noted within. Management can enhance these processes and improve efficiency by implementing our recommendations related to use of point-of sale capabilities of the libraries' automated system; ensuring proper documentation and monitoring of at-risk transactions, such as *VOIDs* and *No Sales*; proper reporting of cash overages/shortages; and additional oversight and monitoring of the process.

Acknowledgements

We would like to thank the staff of the Department of Libraries for their cooperation and responsiveness to our requests during the review and their receptiveness to questions, recommendations and suggestions.



City of Virginia Beach

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INTER-OFFICE MEMORANDUM

DATE: June 19, 2012

TO: Mr. Lyndon S. Remias, CPA, CIA
City Auditor

FROM: Ms. Martha J. (Marcy) Sims, Director
Public Libraries

SUBJECT: Response to Review of Library Revenue Collection Procedures Audit

In light of the fact that we are continuously striving to improve our fiscal processes, we highly value the information you have provided through your audit of our revenue collection procedures. While we address (below) the specific measures we will be undertaking to implement your recommendations, we will also, more generally, be updating our cash handling policy/procedures, prior to August 1st, in order to, in large part, infuse your recommendations into our day-to-day operations.

The Findings/Recommendations and Our Current/Intended Responses:

1. Reduce risk of loss, probability for errors and duplication of effort

Our Response/Intended Response: Virginia Beach Public Library will implement a point of sale cash management system for collecting funds, fines and fees. Considerations for the project include cost, timeline, collaboration with ComIT, physical modification at point of sale, and training of staff. Point of Sale was not possible prior to the recent upgrade of the Library's integrated library system from Unicorn to Symphony which has made this step in the cash handling process possible.

2. Strengthen oversight and monitoring of revenue collection

Our Response/Intended Response: In order to augment the level of fiscal accountability in the individual agencies, we shall require that monthly reconciliations of deposits be completed by the library managers or supervisors. In addition, reconciliation shall be completed, also on a monthly basis, at the Library Administration (i.e. departmental) level. This shall increase the likelihood of discovering latent discrepancies, should any exist.

3. Appropriately record overages/shortages to ensure proper reporting of revenue

Our Response/Intended Response: We shall add the City's overage/shortage object code number (605999) to the deposit slip to ensure the proper recording of revenue. We shall train the administrative assistants regarding this necessary addition to the process.

4. Ensure voided, cancelled and no sale transactions are adequately supported, approved and monitored

Our Response/Intended Response: As of the date of this letter, voided transactions already require approval by the agency manager or supervisor. In addition, we will be developing a standard form/log to ensure all voids and no-sales are properly documented and approved. As a part of this process improvement, we will require that the responsible parties reconcile the void/no-sale log with the Z tape on a daily/weekly basis.

We hope that the above responses will sufficiently address your findings and recommendations. Again, we thank you for assisting us in our efforts to augment the effectiveness of our fiscal processes.

c: Cindy Curtis, Deputy City Manager
David J. Palmer, Public Services Manager
Nancy Pavona, Administrative Services Manager
Clara Hudson, Materials Management Manager
Steven R. Wright, Administrative Analyst