

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Jackie Griffin, Director, Ventura County Library

Date: October 5, 2015

From: Jeffery S. Burgh

Subject: FOLLOW-UP AUDIT OF VENTURA COUNTY LIBRARY PATRON DEBT AND CASH MANAGEMENT

We have completed our follow-up audit of patron debt and cash management for the Ventura County Library ("VCL"). Our overall objective was to determine whether appropriate corrective actions were taken by VCL management to address the issues noted in our prior audit report dated May 30, 2013. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, VCL management made progress in improving the cash management process and had implemented corrective action to address 9 (50%) of the 18 prior findings that were subject to our follow-up audit. For example, change funds were accurately recorded in the Ventura County Financial Management System, cash on hand matched expected amounts, and deposits tied to collections.

However, corrective actions were not sufficient to mitigate concerns with the remaining nine prior findings, including all three prior findings regarding patron debt management, and we identified three new findings. Our follow-up audit disclosed that corrective action was needed to:

- Request a discharge from accountability by the Auditor-Controller for patron accounts with outstanding charges that continue to be purged from VCL's Horizon Integrated Library System ("Horizon").
- Report the increasing amount of uncollected fines and fees to the Auditor-Controller for determination of financial reporting impact.
- Ensure that waived fines and fees are properly approved by management.
- Require completed Liability Release Forms from volunteers.
- Continue improving accountability over cash and patron account balances in Horizon.
- Further safeguard cash from the risk of theft at library branches.

Jackie Griffin, Director, Ventura County Library

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VCL management initiated corrective action to address our findings. Corrective action is planned to be completed by June 30, 2016.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Kathy Long, Chair, Board of Supervisors
Honorable Linda Parks, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer

County of Ventura
Office of the Auditor-Controller



FOLLOW-UP AUDIT OF VENTURA COUNTY LIBRARY
PATRON DEBT AND CASH MANAGEMENT

October 5, 2015

Jeffery S. Burgh
Auditor-Controller

**FOLLOW-UP AUDIT OF VENTURA COUNTY LIBRARY
PATRON DEBT AND CASH MANAGEMENT**

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FOLLOW-UP AUDIT OF VENTURA COUNTY LIBRARY PATRON DEBT AND CASH MANAGEMENT

BACKGROUND

The Ventura County Library (“VCL”) is comprised of 11 library branches, administrative offices, and support services. VCL uses the Horizon Integrated Library System (“Horizon”) to manage the catalog of library materials and to manage patron account activity. During fiscal year 2014-15, Horizon patron accounts incurred charges of over \$142,000 and recorded \$72,000 (51%) in payments received.

SCOPE

Our overall objective was to determine whether VCL management implemented appropriate actions to address 18 patron debt and cash management issues identified during our previous audit completed on May 30, 2013. Specifically, we:

- evaluated the adequacy of VCL’s handling of outstanding patron debt issues related to purged patron accounts, reported accounts receivable, and waived late fines;
- determined whether controls over cash collections had been strengthened since the prior audit;
- verified that adequate corrective action was taken to improve the cash deposit and refund process; and
- determined whether controls for safeguarding cash at library branches had improved since the prior audit.

We performed audit tests and evaluations using documents provided by VCL and the Auditor-Controller’s Office, including various reports generated by VCL’s Horizon database. We reviewed the relevant operations of VCL Administration and selected library branches, including a surprise count of cash for six branches. The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. For our audit, we used documents and records for the period May 2013 through September 2014.

FINDINGS

Overall, we found that VCL management made progress in improving the cash management process. Corrective actions had been fully implemented for 9 (50%) of the 18 prior findings. For example:

- Change funds were accurately recorded in the Ventura County Financial Management System (“VCFMS”).
- During our surprise cash counts, the actual cash on hand matched the expected amounts.
- Deposit amounts coincided with collection amounts.
- Refunds to patrons were properly supported with documentation.

However, corrective actions were not sufficient to mitigate concerns with the remaining nine prior findings, including all three prior findings regarding patron debt management. We also identified three additional areas

in need of improvement relating to liability release forms for volunteers, evidence of deposit of excess change funds, and security of deposit pouches.

Following are details of the areas where improvements were needed, and the Appendix summarizes the status of corrective actions taken since our prior audit. VCL management initiated corrective action in response to the current audit as noted.

1. **Patron Debt Management.** Adequate corrective action had not been taken in the handling of outstanding debt owed by patrons to the County. VCL continued to purge patron accounts without pursuing a discharge from accountability with the Auditor-Controller and has yet to report uncollected amounts to the Auditor-Controller for financial reporting purposes. We also identified continuing concerns related to fine/fee waivers and new concerns related to release of liability by volunteers.

A. **Discharge from Accountability.** VCL had not taken action to ensure that patron accounts are purged from Horizon only after a discharge from accountability has been authorized by the Auditor-Controller. A discharge from accountability for the collection of certain debts (i.e., either too small to justify the cost of collection or unlikely to be collected) must be authorized by the Auditor-Controller. Government Code Section 25259 specifies that such a discharge from accountability does not constitute a release of any person from liability for payment; rather, this relieves VCL from the responsibility of continuing collection efforts for approved accounts. As reported in our prior audit, VCL purged 42,690 accounts with outstanding charges of \$184,423 from Horizon in 2012 to free up space in the system. However, VCL has yet to apply for a discharge from accountability for these purged accounts. Since that time, VCL purged an additional 855 patron accounts with outstanding charges of \$1,318 without applying for a discharge from accountability. Although VCL retained the outstanding balance for each deleted account outside of Horizon, purging the accounts from Horizon removed the accounts from visibility for future collection by the branches.

Recommendation. Periodically, VCL management should identify accounts marked for potential deletion from Horizon that meet VCL-established parameters [i.e., patron accounts that: 1) had not checked out materials for 8 years; 2) were not authenticated (i.e., used online resources) for 3 years; and 3) had outstanding charges of less than \$25 (not including accounts with lost book fines)]. VCL management should then request authorization by the Auditor-Controller for discharge from accountability for appropriate accounts. Only after authorization by the Auditor-Controller, VCL management should proceed with purging the accounts from Horizon and retaining the information in the database outside of Horizon.

Management Action. VCL management stated: "Ventura County Library plans to have, at least, annual meetings with the Auditor Controller Department to discuss and properly purge the accounts from Horizon."

B. **Reporting of Uncollected Fines and Fees.** VCL had not taken action to properly address uncollected fines and fees for financial reporting purposes. Our prior audit disclosed outstanding patron debt of nearly \$2 million in uncollected fines and fees (e.g., for lost, damaged, or overdue materials) that had accumulated over a 22-year period. Nearly \$753,000 in additional uncollected fines and fees has accumulated since the previous audit, increasing the outstanding patron debt total to approximately \$2.7 million as of June 30, 2014. This amount has not been reported to the Auditor-

Controller as accounts receivable nor has any corresponding allowance for doubtful accounts been established.

Recommendation. VCL management should report outstanding patron debt balances to the Auditor-Controller at least annually based upon instructions provided to VCL by the Auditor-Controller's Office on September 3, 2014.

Management Action. VCL management stated: "Ventura County Library plans to have a meeting with the Auditor Controller Department to discuss and create a process for analyzing and reporting any corresponding allowance for doubtful accounts."

- C. **Fine/Fee Waivers.** Although VCL created a log in response to our prior audit to document the rationale for waiving fines/fees, the log was not always effective in providing VCL with reliable information. The manual log entitled *Weekly Report of Waived Fines and Fees* ("weekly report") requires that branch staff handwrite the date, patron identification number, amount, and reason for each waiver. The weekly reports are then signed by a branch supervisor and submitted to VCL Administration to evaluate for appropriateness. However, our review of 73 waivers totaling \$803 issued by all VCL branches for a 1-month period disclosed that 13 (18%) waivers for \$191 (24%) were not listed on the weekly reports. Although VCL Administration claimed to reconcile waivers issued in Horizon with the weekly reports, we did not find any indication that VCL Administration had identified the 13 waivers missing from the weekly reports. Also, of the 60 waivers that were listed on the weekly reports: 5 (8%) did not include approval with a supervisor's signature; 12 (20%) were approved by the same individual who issued the waiver in multi-staffed branches; and 1 (2%) was not posted in Horizon.

Recommendation. Rather than using the manual log, VCL management should create a Horizon report of waived fines/fees for branch supervisors to run on a daily basis or as the waiver occurs for review/approval. VCL Administration should implement procedures to ensure that waivers reported by branches are reconciled to waivers posted in Horizon. VCL Administration should review/approve waivers issued and approved by the same individual.

Management Action. VCL management stated: "Effective June 3, 2015 it is now a requirement of the library branches to submit customer signed forms that are to match with their Monthly Waived Fees & Fines Report. We are also analyzing current structures in Horizon for fine and fee waiving to see if Horizon has a granular capability. Finally, we are analyzing the current Horizon reports in regard to waived fees and fines and will alter them to be able to report all necessary info to review and reconcile the monthly branch reports to Horizon."

- D. **Liability Release Forms.** VCL did not always require patrons to complete a Liability Release Form before volunteering to work off fines/fees. Our review of 73 fine/fee waivers for a 1-month period identified 11 (15%) instances when patrons performed a task or worked at the branch in exchange for a fine/fee waiver. VCL stated this usually occurs when patrons cannot afford the fine/fee and asserted that every instance was authorized by the VCL director. However, VCL also stated that not all branches require volunteers to fill out a form to release the County from liability in the event of injury or damage to the volunteer. Allowing patrons to volunteer without completing a Liability Release Form exposes the County to lawsuits and claims arising from the volunteer services.

Recommendation. VCL should ensure that all volunteers complete a Liability Release Form, as approved by County Risk Management, prior to undertaking the task or work.

Management Action. VCL management stated: “Effective June 1, 2015 it is now a requirement of the library branches to submit a copy of the volunteer form with their monthly Waived Fees and Fines Report. This will assure that proper completion of volunteer forms when the volunteer works off fees and fines.”

2. **Cash Accountability and Collections.** VCL’s processes for establishing accountability over cash balances and collections were in continued need of improvement. We noted new and continuing issues relating to branch change funds, revenue collection, and posting collection amounts in Horizon.

A. **Undeposited Change Funds.** VCL could not demonstrate that change funds identified during our prior audit that exceeded the branches’ current change funds had been deposited. In 2013, VCL reset the change fund amount assigned to each branch, which included change in the registers, change held as reserve in the safes, and change in coin-operated machines. Change funds were reduced for five of the six branches we reviewed, indicating that excess change funds were to be deposited. Our review of three of these five branches disclosed that VCL could not confirm that the excess change funds ranging from \$41.10 to \$269.20 had been deposited. Furthermore, another branch that has since left the County library system did not account for \$47 in change funds that needed to be deposited.

Recommendation. VCL management should establish a process to clearly account for any modifications to branch change fund amounts in the future.

Management Action. VCL management stated: “This matter will be researched and the outcome and reconciliation will be shared with the auditor at that time.”

B. **Excess Cash.** VCL had not taken sufficient action to ensure that change funds are commensurate with business needs. Of the six branches we reviewed, two branches held approximately 50 percent or more of the branch’s change funds as reserve in the safe, indicating these monies were not generally needed on a daily basis. The change funds for a third branch exceeded the branch’s highest daily collections for 1 month we reviewed by over 1,100 percent. Cash assigned to branches that exceeds daily business needs increases the risk of misappropriation of these funds.

Recommendation. VCL management should assign change funds based on analysis of daily cash transactions of each branch and deposit any excess.

Management Action. VCL management stated: “Ventura County Library are planning to adjust library branch change funds according to the recommendation provided. These will be adjusted by December 31, 2015.”

C. **Recording Collection Amounts in Horizon.** VCL had not taken sufficient action to ensure that collections are properly recorded in Horizon patron accounts. All collections are entered into cash registers, while only a portion of these collections are entered into Horizon to offset patron account charges for: lost book fines; fines/fees including late fines and damaged book fees; and debt collection fees (collectively, “Horizon-type charges”). Other types of fees are not charged to patron

accounts (e.g., for replacement library cards and meeting room rentals); therefore, collections for these types of fees are currently entered only in the cash registers, not in Horizon. Our review of collections at six branches over a 1-month period disclosed nine instances where four (67%) branches reported cash register collections for Horizon-type charges that did not match collections within Horizon. These instances resulted in Horizon patron accounts being under-credited by as much as \$3.00 and over-credited by as much as \$9.30.

Recommendation. VCL management should evaluate whether the duplication of effort from the use of cash registers has contributed to the lack of accuracy in Horizon patron accounts. VCL management should evaluate whether all collections can be accounted for within Horizon, thereby eliminating the need for separate accounting in the cash registers.

Management Action. VCL management stated: "Ventura County Library is currently in deliberations to discuss the possibility of doing away with cash registers and only entering fee collection into our Horizon system. This will also entail an analysis of fine and fee codes in the Horizon system to reduce duplication, complication and confusion for recording purposes."

- D. **Coin-Operated Machine Revenue.** VCL had not taken sufficient action to ensure that revenue generated by the self-service coin-operated machines was reconciled to machine meter counts. None of the six branches we reviewed with coin-operated machines (i.e., for copies and Internet printouts) maintained logs of machine meter counts for staff to compare the last meter count to the current meter count. Therefore, when the machine revenue was periodically removed from the machines for deposit, staff could not confirm reasonableness of the revenue. We also noted that monies accumulated in machines in excess of assigned amounts in three branches, indicating that machine revenue was not always deposited daily with the branch collections.

Recommendation. VCL management should formalize a consistent procedure for the collection, deposit, and reconciliation of machine revenue.

Management Action. VCL management stated: "Ventura County Library is currently analyzing a way to reconcile the self-service coin-operated machines. This reconciliation will also take into consideration the waiving of fees. Also, with the recommendation of the auditor, we have also adjusted the occurrence that the funds from such self-service coin-operated machines are sent in for deposit."

- E. **Debt Collection Fee.** VCL had not taken sufficient action to ensure that the payment of fines was separated from payment of debt collection fees within Horizon. Although Horizon provides a separate input field exclusively for payment of the \$10 debt collection fee, two (33%) of the six branches we reviewed for a 1-month period occasionally posted the payment of fines within the debt collection field. We also noted that year-to-date collections of the debt collection fee for four (67%) of the six branches we reviewed were not in increments of \$10. Whether only a portion of the debt collection fee was paid or whether a different type of fine/fee payment was entered in the debt collection field was not clear. However, because debt collection fee payments were not always accounted for separately, Horizon patron accounts may not accurately reflect the fee collected. This also reduced VCL's ability to evaluate whether the fees collected were adequate or needed to be revised to cover costs of sending accounts to the collection agency.

Recommendation. VCL management should administer staff training on proper data entry.

Management Action. VCL management stated: "Ventura County Library will complete an analysis of fine and fee codes in the Horizon system to reduce duplication, complication and confusion for recording purposes. We will also review the processes in regard to debt collection, adjust if necessary, and train all branch staff to record such transactions properly."

3. **Safeguarding Cash.** Adequate corrective action had not been taken to remediate all concerns regarding the safeguarding of cash, resulting in continued risk of theft.

- A. **Transporting of Cash Drawers.** Although VCL had implemented procedures to count cash during non-business hours in the branches, action was still needed to ensure that cash drawers are transported discreetly. Of the six branches we observed, one (17%) continued to transport a cash drawer throughout the branch in plain sight during business hours. Limiting the visibility of cash funds from public view could reduce risk for VCL staff.

Recommendation. VCL management should require that the branch use a locked pouch or bag when transferring cash funds from one location to another.

Management Action. VCL management stated: "Ventura County Library will be having discussions with each library branch to determine a safe and discreet way to transport cash from cash drawers to the safe, minimizing risk."

- B. **Visibility of the Safe.** Although we discussed this concern with management during our prior audit, security measures were not always adequate to minimize the visibility of the cash safe in one branch. The door to the office that contained the safe continued to be propped open during business hours with the safe in the line of sight of the public. The position of the safe necessitated that the library associate's back was turned to the open office door when accessing safe, compounding safety concerns for staff.

Recommendation. VCL management should train library staff to habitually close and lock the door to the office during library business hours.

Management Action. VCL management stated: "With a new Librarian at our Library branch, we have discussed either closing the office door or moving the safe. We have come to the conclusion that the office door will remain closed during library hours and we will monitor the ability of the staff to adhere to this policy. Should it be discovered that the staff is having a difficult time adhering to this policy, we will then take different action and move the safe."

- C. **Deposit Pouch Overnight Location and Pick-Up.** Deposit pouches were not always secured within branch safes overnight, and evidence was not provided for pick-ups of deposit pouches. Of the six branches we observed, three (50%) left the locked deposit bag outside the safe overnight for VCL Administration pick-up the following day because pick-ups may occur during non-business hours. This exposed the deposit to the risk of theft, especially if the deposit was not picked up the following morning and remained outside the safe during business hours. In addition, VCL Administration staff did not sign for deposit pick-ups, which could limit VCL's ability to pinpoint responsibility in the event of a missing deposit.

Recommendation. VCL management should require all deposits to be secured in the safe while awaiting pick-up by VCL Administration. VCL management should require that VCL Administration staff sign for each deposit picked up.

Management Action. VCL management stated: "Ventura County Library is currently looking in the VCL Courier schedule compared to Library branch hours. Once compared, the thought is that we may change the hours of the couriers to assure someone is at the branch to retrieve the deposit bag from the safe rather than leaving it out."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective action by June 30, 2016.

**FOLLOW-UP AUDIT OF VENTURA COUNTY LIBRARY
PATRON DEBT AND CASH MANAGEMENT**

CORRECTIVE ACTION IMPLEMENTATION SUMMARY

Prior Audit Finding	Status of Corrective Action
<u>Patron Debt Management</u>	
1. VCL did not request a discharge from accountability by the Auditor-Controller prior to purging patron accounts from Horizon. [Prior Finding I(1)]	Not implemented. [Current Finding 1(A)]
2. Actions were needed by VCL to properly address uncollected fines and fees for financial reporting purposes. [Prior Finding I(2)]	Not implemented. [Current Finding 1(B)]
3. Waivers issued by VCL associates for late fines incurred by patrons were not always justified with proper documentation. [Prior Finding I(3)]	Partially implemented. [Current Finding 1(C)]
<u>Cash Management</u>	
4. VCL had not taken sufficient action since our prior audit to ensure that all change funds and reserve funds were accurately recorded in VCFMS. [Prior Finding II(1)(A)]	Implemented.
5. During our surprise cash counts, the actual cash on hand did not match the expected amounts as similarly reported in our prior audit. [Prior Finding II(1)(B)]	Implemented.
6. As also reported during our prior audit, the amounts retained by the branches for making change (i.e., change funds and reserve funds) appeared to be larger than the business needs of each branch. [Prior Finding II(1)(C)]	Not implemented. [Current Finding 2(B)]
7. Library branches did not always account for coins set aside to mechanically provide patrons with change when paying for computer print-outs. [Prior Finding II(1)(D)]	Implemented.
8. Collections accounted for in cash registers did not always match amounts recorded in Horizon. [Prior Finding II(1)(E)]	Not implemented. [Current Finding 2(C)]
9. Cash overages and shortages were not recorded in VCFMS and were not addressed by VCL Fiscal Services in a timely manner. [Prior Finding II(1)(F)]	Implemented.
10. Library branches did not reconcile self-service copy machine revenue to copy machine meter counts. [Prior Finding II(1)(G)]	Not implemented. [Current Finding 2(D)]

**FOLLOW-UP AUDIT OF VENTURA COUNTY LIBRARY
PATRON DEBT AND CASH MANAGEMENT**

CORRECTIVE ACTION IMPLEMENTATION SUMMARY

Prior Audit Finding	Status of Corrective Action
11. VCL did not always report the delegation of authority for duties relating to change fund reconciliations or the location of change funds accurately to the Auditor-Controller. [Prior Finding II(1)(H)]	Implemented.
12. Payment of fines was not always separated from payment of debt collection fees within Horizon, reducing VCL's ability to analyze the sufficiency of the debt collection fee charged. [Prior Finding II(1)(I)]	Not implemented. [Current Finding 2(E)]
13. VCL had not taken sufficient action since our prior audit to ensure that deposit amounts coincided with the amount of collections. [Prior Finding II(2)(A)]	Implemented.
14. Management had not taken sufficient action to ensure that deposits were processed in dual custody for multi-staffed library branches. [Prior Finding II(2)(B)]	Implemented.
15. Cash was susceptible to inappropriate access in certain instances we noted during our audit. [Prior Finding II(3)(A)]	Partially implemented. [Current Finding 3(B)]
16. Cash drawers were not always counted or transported discreetly. [Prior Finding II(3)(B)]	Partially implemented. [Current Finding 3(A)]
17. As similarly reported during our prior audit, cash registers were not assigned to specific employees in multi-staffed libraries. [Prior Finding II(3)(C)]	Implemented.
18. As similarly reported in our prior audit, refunds paid from the Auditor's Refund Trust Account were not always supported with documentation confirming the original transaction. [Prior Finding II(4)]	Implemented.