TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: January 20, 2010

SUBJECT/REPORT NO:
Follow Up of Audit Report 2007-10 - Library - Fines and Other Revenue
(AUD10005) (City Wide)

SUBMITTED BY: Ann Pekaruk
City Manager's Office

PREPARED BY: Ann Pekaruk 905-546-2424 x4469

SIGNATURE: ____________________________

RECOMMENDATION:

That Report AUD10005 respecting the follow up of Audit Report 2007-10, Library – Fines and Other Revenue, be received.

EXECUTIVE SUMMARY

Audit Report 2007-10, Library – Fines and Other Revenue, was originally issued in May 2008 and management action plans with implementation timelines were included in the Report. In November, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the twenty-five (25) recommendations made in the original Report and Addendum, five (5) have been completed, three (3) are in progress, two (2) have been initiated, two (2) have alternatives implemented and one (1) is not applicable. Twelve (12) remain incomplete.

Alternatives for Consideration – Not Applicable
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Tighter controls and oversight over fines and waivers may result in more revenue.

Staffing: None

Legal: None

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2007-10, Library – Fines and Other Revenues, was originally issued in May, 2008. The report indicated twenty-five (25) recommendations identifying areas for improvement with respect to financial and administrative controls related to library fines, other revenues and cash collection processes.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In November, 2009, Internal Audit followed up the report to confirm whether appropriate and timely actions had been taken.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

The results of the follow up were provided to management responsible for the operation of the Hamilton Public Library.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report CM10005 contains the first three columns as originally reported in Audit Report 2007-10 along with an added fourth column indicating Internal Audit’s follow up comments. Six (6) items in the Addendum have also been followed up with the appropriate detail provided.
Five (5) of the twenty-five (25) recommendations have been completed. They are: the monitoring of the debt collection contract; the security and protection of patrons’ data; a system in place to confirm that patrons’ addresses are accurate; a cash handling training program; and branch management complying with the library’s policies and procedures regarding room rentals.

Three (3) recommendations are in progress. Daily Cash Sheets are compared to the cash on hand on a daily basis. However, there is no evidence that variances noted are reported to the Branch Manager and investigated within a reasonable time. Subsequent site visits indicated that cash being stored overnight is now locked in a safe. However, some staff at the visited branch continue to complete Daily Cash Sheets in pencil. Although cheques received by the branch and intended for branch deposit are restrictively endorsed upon receipt, cheques for donations received at the branches are not endorsed before being sent to the Business Office at Central branch for deposit.

Two (2) recommendations have been initiated without any significant progress. Reports from the Horizon circulation system have been developed to track daily payments and waivers but these forms have not yet been adopted, circulation revenues are not reconciled and thus there is no assurance regarding the completeness of reported revenues. Wireless access in the Bookmobiles to a database containing patrons’ circulation information is in the process of being implemented.

Alternatives have been implemented for two (2) of the recommendations. Included are: a process that ensures any outstanding balance in regard to room rentals is paid before further rentals are allowed; and a changing of the all user password for the Horizon system access on a quarterly basis. However, without individual passwords as had been recommended by Internal Audit, it was determined that assigning responsibility for password changes to individual users is not applicable under the circumstances.

Twelve (12) recommendations are noted as not completed. These are: measures to improve the security and integrity of the Horizon system (Integrated Library Software (ILS)) deemed not currently practical and instead, a planned migration to a new ILS system to start early in 2010 (at which time, individual logins will be investigated); the matching of staff’s system access privileges to their level of responsibilities; processing of waivers and automation of the cash receipting process; the standardized use of the Horizon system for payment processing; staff identification and reasons for waiving fines; the validation of invoices, payments, waivers and the value of material returned from the collection agency against internal records; the review of the debt collection agreement to ensure all services and costs are detailed; reconciliation of monthly readings from the photocopiers and Mini Till machines to funds collected in order to ensure completeness; incorporation of certain performance measures into management reports; and management review of the Daily Cash Sheets and investigation of identified differences over a pre-determined threshold.
ALTERNATIVES FOR CONSIDERATION:

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)


Financial Sustainability

- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

APPENDICES / SCHEDULES

Appendix "A" to Report CM10005.

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<td>1.</td>
<td>Information Technology Environment</td>
<td>That management approach Sirsi-Dynix about the feasibility of switching to user-specific usernames and passwords to access the existing version of Horizon (also known as ‘Unicorn’). If such functionality is not available in the Unicorn version of Horizon, management should consider insisting on user-specific access when upgrading to the next version of Horizon (likely to be the ‘Symphony’ ILS).</td>
<td>Agreed. Horizon currently supports user specific usernames and passwords, although HPL staff have not tested the feasibility of implementing this. Due to the way staff currently share the same circulation stations during busy periods, this has not been identified as a priority. Different logins will be implemented at circulation service points as an interim step in 2008. As part of planning for the migration to a new system, we will ensure individual logins are incorporated with that migration.</td>
<td>Not Completed. Staff from Electronic Services investigated options and determined that user-specific usernames and passwords are not practical as circulation staff share workstations. Staff may not always log out or “change user” when leaving, allowing transactions to continue to be recorded under the first user, defeating the purpose for setting up user-specific usernames. A custom script has been developed that tracks transactions, including payments and waivers by workstation. As workstations are shared, this interim measure does not address the issue of accountability for waivers and payments that staff process. Planning for migration to a new ILS system will start in 2010. Individual logins will be investigated.</td>
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The Library (HPL) uses a Sirsi-Dynix integrated library system (ILS) called Horizon to manage a database of library materials and patrons’ personal information. Access to Horizon is by generic branch usernames and a password that is shared by close to 200 users at the 24 locations. Such access allows circulation staff to perform tasks that include updating patrons’ records, checking material in and out, processing patrons’ payments and the waiving or writing-off of unpaid fines.

Without user-specific usernames and passwords, it is not possible to monitor individual access to the system and to track transactions processed by individual employees. As such, management’s ability to detect and monitor errors and irregularities perpetrated by specific users is impaired. In addition, shared usernames and passwords compromise system security by increasing the likelihood of unauthorized access to library records and patrons’ personal information.
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<td>The Electronic Services section that is responsible for changing the Horizon password does not appear to have a structured schedule that ensures that passwords are changed on a regular basis. The shared password has remained unchanged for close to seven months, having been last changed at the beginning of March 2007. The risk associated with shared passwords outlined in (1) above is compounded when the same passwords are used for extended periods of time. Further, new passwords are communicated to staff though unencrypted e-mails and faxes. The process may not be secure as the password could be received or viewed by unintended recipients, exposing the circulation system and patrons' personal information to the risk of unauthorized access.</td>
<td>That management request Sirsi-Dynix to configure Horizon to prompt users for periodic password changes. If the system does not have the functionality for automated password prompts, Electronic Services should develop a schedule that ensures that passwords are changed regularly. That, in addition to switching to user specific passwords recommended in (1) above, the responsibility for managing personal passwords be placed on individual users to enhance password privacy and security.</td>
<td>Not practical. Horizon currently supports user automated password prompts although these would need to be implemented in conjunction with individual usernames and passwords (see item 1). Because staff share and will continue the share logins until a new system in implemented, automated password changes are not currently practical.</td>
<td>Alternative Implemented. Passwords are now being changed on a quarterly basis. A Technician in Electronic Services emails the new password to branch managers, who then advise their staff. Note that the password changed is the generic, all user password used to gain systems access. A notification is also placed on HPLNet (library’s intranet) advising staff that the password is due to change. The password itself is however not posted.</td>
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Not practical. It should be noted that while passwords are distributed unencrypted to staff there are two factors that greatly limit the risk of someone gaining unauthorized access. The first is the computer requires the current version of the Horizon client installed on the machine and the second is the machine must log onto the network. | Not Applicable. Without individual passwords, it is not possible to assign responsibility for password changes to the individual users. |
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<td>3.</td>
<td>The lowest level of staff access to the circulation system allows users an unlimited capability to process circulation related transactions. For example, Horizon does not place limits on the amount or the number of times circulation staff can waive fines or process fine overrides. In addition, the system does not require staff to input their identification or reasons for waiving the fines.</td>
<td>That system access privileges granted to circulation staff be reviewed and made consistent with the level of their responsibilities.</td>
<td>Agreed (in principle). Horizon supports different security levels including giving supervisors different levels of access to staff. It supports, for example, limiting access menus such as the Circulation Waiver Menu. While the system supports these restrictions, they will have to be investigated and reviewed for potential public service impacts that could create barriers to the use of the library. Investigation and review to be completed by the end of 2nd quarter 2008.</td>
<td>Not Completed. Management believe that restricting staff's access privileges, particularly in regard to the waiving of fines, could adversely affect the quality of public service as well as create a barrier to the use of the library. For example, if a supervisor is not readily available, patrons may have to wait for long periods to have their fines waived or may be unable to borrow material altogether. In addition, restricting frontline staff's ability to process waivers could actually encourage them to use the 'payment' function instead, in order to avoid calling a supervisor.</td>
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<td>Administrative procedures require that waivers for delinquent accounts that have been handed over for collection be processed only by the Manager of Circulation and Customer Services. As Horizon is not configured to restrict the processing of such transactions to the Manager, staff could process waivers for patrons whose accounts have been handed over. Due to the use of generic usernames and passwords, it was not possible during the audit to determine whether waivers for such accounts had been performed by persons other than the designated Manager.</td>
<td>That a requirement to input staff identification and reasons for processing waivers be implemented.</td>
<td>Agreed. Current procedures around fines collection and waiving of fines will be reviewed to determine the best way to ensure individual staff are accountable for waiving of fines. This would include updated procedures and training to staff to ensure a reason is given and the staff identified. Updated procedures to be completed and training of staff to be started by end of 2nd quarter 2008.</td>
<td>Not Completed. It was determined that inputting staff identifications and reasons for waivers will slow down service. As an interim measure, a custom script is now run on each computer at login that identifies each transaction by the computer terminal at which the transaction was processed. Without user-specific usernames, this script is still unable to identify the employee who processed the waiver and thus, accountability cannot be established.</td>
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<td>4.</td>
<td>Cash Handling Processes</td>
<td>Twenty (20) of the library’s 24 branches use a non-sequentially, pre-numbered, hand-written Daily Cash Sheet as the primary cash receipt record. Upon receiving funds, staff indicate the revenue into appropriate columns on the Daily Cash Sheet and, at the end of the day, cash on hand is verified against the total on the sheet. Fairly consistently, cash on hand exceeds amounts recorded on the Daily Cash Sheet as staff sometimes forget to update the sheet with amounts received. For this reason, the reliability of the Daily Cash Sheet as a mechanism for recording and controlling cash receipts is compromised. In addition, being a manual document onto which entries are sometimes entered by erasable pencil, amounts recorded on the Daily Cash Sheet are susceptible to manipulation. A review of records from the other four branches which use cash registers showed cash discrepancies to be significantly lower than for branches using the manual system. In a month, one branch showed a cash surplus of $304, representing about 25% of revenues recorded on the Daily Cash Sheet for that month. Shortages and surpluses are recorded in the fine revenues account.</td>
<td>That management consider automating the cash receipting process for locations that receive reasonably large amounts of cash in order to improve the reliability and accuracy of amounts reported. The cost of installing cash registers at these locations should be weighed against the benefits of increased security and information reliability and a possible increase in reported revenues. Due to fiscal constraints, a staged implementation may be considered starting with branches with the higher cash receipts.</td>
<td>Agreed. A review will be undertaken and cash registers will be installed at those branches where the volume of cash receipts justifies installation by the end of the 1st quarter of 2008. Not Completed. No review was carried out. The twenty branches still use the manual Daily Cash Sheets as the primary cash receipt records. A review of Branch Cash Reports indicated that the Daily Cash Sheets are still not reliable as staff do not always record all payments received from patrons, resulting in very large (% wise) artificial cash surpluses. In addition, Daily Cash Sheets at some branches are still being updated in erasable pencil.</td>
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<td>5.</td>
<td>Fines and circulation related fees received are not reconciled to reports from the Horizon circulation system. As such, there is no assurance that fines and fees received from patrons are recorded in the general ledger in their entirety. An analysis of these revenues for 2006 and 2007 showed that receipts reported in Horizon exceeded amounts recorded in the general ledger by $52,606 and $56,313 respectively, indicating possible cash shortages. Unreconciled cash shortages for individual branches ranged from 4% to 47% of amounts recorded in Horizon while bookmobiles reported even larger discrepancies that amounted to as much as 76% of amounts reported in Horizon. Staff stated that the differences noted do not necessarily indicate cash shortages as staff use the ‘waive’ and ‘payment’ functions interchangeably. As such, some amounts reported in Horizon as payments may actually have been waivers, reducing the reliability of Horizon reports. This practice may be due to staff's awareness that Horizon reports are not used for cash balancing. Without a reconciliation of cash to circulation records and an investigation of cash discrepancies, the completeness of circulation revenues cannot be assured.</td>
<td>That circulation related revenues be periodically reconciled to Horizon cash reports and that management develop dollar thresholds beyond which discrepancies are investigated.</td>
<td>Agreed. The Horizon Fee Payment transaction log supports recording workstation, cash drawer or department for each transaction and generating reports. Further investigation will be done in the 1st quarter 2008 to determine how best to use these reports.</td>
<td>Initiated. Two Horizon reports were developed to track daily payments and waivers by computer terminal. However, these forms have not yet been adopted and circulation revenues are not being reconciled to the Horizon reports. As such, there is no assurance regarding the completeness of reported revenues. In addition, a dollar threshold for investigating differences between the cash drawer and revenues reported by the Horizon system has not been established. Unreconciled cash differences for the first 10 months of 2009 amounted to $7,940 or 2% of revenues recorded in Horizon.</td>
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6. **Observation of Existing System:** Bookmobiles reported a large amount of waivers as compared to regular branches. While waivers for the branches average 8% of amounts collected, in the first six months of 2007, bookmobiles waived three and a half times (360%) more fines than they collected, waiving approximately $3,300 in fines and collecting only $915. In 2006, bookmobiles waived about $6,300, almost as much as they collected. There is a risk that, if not checked, the unlimited capability to waive fines may be inappropriately used.

**Recommendation for Strengthening System:**

- That a requirement to input staff identification and reasons for waiving fines and other fees be implemented.
- That management immediately investigate the possibility of running a more comprehensive and up to date database in bookmobiles that contains information about patrons' blocks and fine balances.

**Management Action Plan:**

- Agreed. A review of current procedures around fines collection and waiving of fines will be undertaken by the end of the 2nd quarter 2008 to determine the best way to ensure individual staff are accountable for waiving of fines. This could include updated procedures for ensuring a reason is given and the staff initials are recorded.
- Agreed. An offline system that resides on the Bookmobile would not be able to economically support a comprehensive and up to date database since it would have to include the entire patron database for the City.

**Follow Up (November 2009):**

- Not Completed. It was determined that inputting staff identifications and reasons for waivers would slow down service. As an interim measure, a custom script is run on each computer at login that identifies each transaction by the computer terminal at which the transaction was processed. This, however, does not address the risk as identified in the observation.
- Year-to-date October 2009 statistics derived indicated that the bookmobile waived more than one and half times (165%) more fines than they collected.

7. **Observation of Existing System:** Cheques received from patrons are not endorsed immediately upon receipt. Of particular note are donations received by branches in cheque form and forwarded to the Business Office by inter-office mail without restrictive endorsement. This practice exposes the cheques to the risk of interception and fraudulent negotiation.

**Recommendation for Strengthening System:**

- That cheques be restrictively endorsed immediately upon receipt.

**Management Action Plan:**

- Agreed. Procedures will be implemented immediately requiring cheques to be restrictively endorsed on receipt.

**Follow Up (November 2009):**

- In Progress. Cheques received at the branches for branch deposit are restrictively endorsed on receipt. However, donation cheques are still forwarded to the Business Office without being endorsed. Even though the dollar value of such donation cheques is not material, the risk of misappropriation still exists.
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<td>Collection Agency Contract</td>
<td>That prior to their approval for payment, invoices from the collection agency be verified against summaries generated from the DebtCollect system. The reports from DebtCollect could be attached to the invoices as proof of verification.</td>
<td>Agreed. Staff will investigate, in the 1st quarter 2008, the reporting functionality in the Debt Collect module to ensure invoices received from the collection agency are accurate.</td>
<td>Not Completed. The spreadsheet that is used to 'verify' the number of first, second and billing notices billed by the collection agency is updated from information that the collection agency provides to the library. Since it is not generated from the library’s own records, the spreadsheet does not serve as an independent record and therefore does not provide any additional assurance regarding the accuracy of amounts billed by the agency. In addition, placement notices for accounts that have been handed over for collection are not verified against any library record. Placement notices account for over 70% of the collection agency’s billings to the library.</td>
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<td>That information about payments, waivers and the value of material returned reported in monthly performance reports produced by the collection agency be verified against internally generated reports.</td>
<td>Agreed. An investigation will carried out, in the 1st quarter of 2008, to determine if additional reports can be generated to determine the accuracy of the collection agency’s reports on payment.</td>
<td>Not Completed. Management continues to rely on performance metrics reported on the collection agency’s customer service portal. Although information about payments, waivers and returned material is generated and transmitted from the library’s own information system, staff do not run any reports against which to verify figures provided by the collection agency.</td>
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<td>That the debt collection contract be actively monitored to ensure it remains budget neutral.</td>
<td>Agreed. The monthly statements are reviewed to ensure that budget neutrality is maintained.</td>
<td>Completed. Every month, the Director of Finance and Facilities accesses a report from the collection agency’s portal that provides information about fines paid and material returned. In addition, according to the terms of the contract, each customer handed over for collection is billed $15.00 while the collection agency currently bills the library $12.80 per transaction.</td>
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Invoices from the collection agency are approved for payment without verifying billings against internally generated reports. Using a program called DebtCollect, the library electronically transmits requests for notices and placements to the collection agency on a daily and weekly basis respectively. As such, all notices and placements billed by the collection agency should agree to notice and placement requests recorded in DebtCollect. The verification of the agency’s invoices should provide assurance about the validity of payments to the collection agency.

Similarly, performance reports from the collection agency showing the value of material returned, payments received and waivers processed are not agreed to library records. Such details are electronically transmitted to the agency on a daily basis from the library’s DebtCollect system.

The requirement for the collection agency contract to be budget neutral was an important consideration when the contract was negotiated. Without independent verification, the reliability of the agency’s reports may not be guaranteed and the cost effectiveness of the contract could be questioned. Using information currently contained in the collection agency’s performance reports, the contract appeared to be more favourable than budget neutral, with payments to the agency amounting to 29% of the value of material returned and fines paid or waived.

That prior to their approval for payment, invoices from the collection agency be verified against summaries generated from the DebtCollect system. The reports from DebtCollect could be attached to the invoices as proof of verification.

That information about payments, waivers and the value of material returned reported in monthly performance reports produced by the collection agency be verified against internally generated reports.

That the debt collection contract be actively monitored to ensure it remains budget neutral.
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<td>9.</td>
<td>Security over daily and weekly electronic transfers of patrons’ information to the US based collection agency needs to be improved. Information about patrons’ identities, addresses and payments is not encrypted but is transmitted to the agency in plain text. Without encryption, the confidentiality of patrons information may not be guaranteed as patrons’ information is exposed to the risk of unauthorised access and possible identity theft. Apart from the loss of public trust in the library’s processes, the effects of identity theft on individual patrons’ lives could be significant.</td>
<td>That library management explore the possibility of protecting patrons’ data through data encryption or other forms of electronic security.</td>
<td>Agreed. The collection agency has not had a process by which data could be sent to them encrypted. However, at our request, the vendor has now provided the Library with software which will encrypt data that is sent to them electronically. Staff are in the process of testing the software and it will be implemented as soon as it is confirmed that it works with our system.</td>
<td>Completed. As of June 2008, all notices are sent in Secure Shell (SSH) Transport Layer Encryption Mode. All Debt Collect files are now sent through SSH (Secure Shell) as of December 2007.</td>
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| 10. | It was noted that some services provided by the collection agency are not included in the contract and are based on a verbal agreement with the agency. For example, the mailing of past due and billing notices to patrons for which the library has paid over $19,000 in the past eighteen months (over 30% of payments to the agency) is based on a verbal agreement. While the agency has been providing cost effective and timely service, management needs to ensure that the library’s interests are protected and that arrangements with third parties are formalized by way of written and binding contracts. In addition, the existing agreement for placements does not provide for a mutually agreed upon rate adjustment formula in case of a fluctuation in the Canadian rate of exchange with the US dollar. This is especially important given the recent strengthening of the Canadian dollar against US currency. Such a formula would make it possible for management to pro-actively monitor price changes. Presently, the collection agency unilaterally decides when and by how much to adjust the placement billing rate. | That a comprehensive debt collection agreement be drawn up that will ensure that:  
- All services provided by the collection agency are incorporated into the agreement.  
- A rate adjustment formula that is responsive to currency fluctuations is negotiated or that the billing rate be set in US dollars. | Agreed. A review of the existing contract will be undertaken in the 1st quarter 2008 with a view to incorporate all services provided by the collection agency into the agreement and address currency fluctuations. | Not Completed. The contract has not been reviewed or amended. The collection agency continues to provide services that are not included in the existing contract such as the mailing of past due and billing notices whose added costs may cause concern over budget neutrality of the services provided. The collection agency also reserves the right to adjust the billing rate unilaterally in response to the fluctuation in the Canadian rate of exchange with the US dollar. |
# | OBSERVATION OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (NOVEMBER 2009)
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11. | According to collection reports received from the collection agency, about 20% of accounts handed over to the agency do not have the correct current address. This makes collection difficult and in many cases, improbable. Such errors have an unrecoverable cost component attached to them as the collection agency bills the library a $14.80 fee for every balance handed over, whether information is correct or not. | That management put in place a process for periodically confirming patrons’ addresses in Horizon to ensure that information handed over for collection is accurate. | Agreed. Currently, the system is set to request address checks once a year when patrons use our services. | Completed. The system is set up to remind staff to ask patrons for an address check once a year.
12. | Photocopier and Copy Card Revenues There does not appear to be an adequate segregation of duties in the collection, recording and banking of photocopier revenues at the central library. The clerk responsible for collecting cash from the machines is also responsible for recording and banking the funds. Further, funds collected from the machines are not deposited intact and are often deposited more than a month after collection, after some of the funds have been used to provide loose float for the circulation desk. In addition, photocopier readings are not used to verify the completeness of funds collected. Similarly, readings taken from the Mini Till for the sale of copy cards are not reconciled to funds collected from the machines. The accuracy of amounts reported as copy card revenues can therefore not be independently verified. Although copier revenues have been steadily decreasing over the last few years and in total represent a very small part of the other revenues collected by the library (2006 - $31,755), a simple reconciliation of the readings to funds collected would provide some assurance as to the completeness of the copier/copy card revenues recorded. | That, in order to compensate for a lack of segregation of duties in the cash collection process and to provide assurance about the completeness of funds recorded, readings taken from coin operated photocopier and Mini Till machines be reconciled to funds collected. | Agreed. A procedure will be implemented by the end of the 1st quarter 2008 that will require readings from coin operated photocopiers and Mini Till machines to be reconciled to funds collected. | Not Completed. Management indicated that the action plan has not been implemented because of staff changes within the Business Office. The Financial Accounting Clerk will start reconciling monthly readings to funds collected by the end of the first quarter in 2010.
### Performance Measures

Key performance indicators related to the operation of individual branches and the billing and collection of fines and other revenues are not presented to senior or local branch management. The performance of individual branches with respect to fines levied, collected and waived as well as information about delinquent patrons is never formally reviewed by management for the purpose of evaluating the performance of individual branches or assessing the efficiency and effectiveness of cash collection processes.

Without formalized performance measures for branches and other functional areas, there is a risk that operational inefficiencies will remain undetected which may affect the library’s ability to provide high quality public service.

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| 13. | **Performance Measures** | That management consider introducing the following performance measures:  
- Fine waivers above certain established limits  
- Fines waived by branch (number and dollar)  
- Fine waivers by staff identification  
- Delinquent accounts handed over by branch  
- Fines waived as a percentage of billings | Agreed. The collection of various performance measures data will be investigated in 2008. | Not Completed. No investigation has been done and none of the suggested performance measures are included in management reports. |
ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them as necessary.

1. Contrary to the Cash Responsibilities policy, cash discrepancies are not reported to the Branch Manager nor are an Incident Report completed when cash shortages or surpluses occur. Internal Audit established that every branch reports cash surpluses or shortages on a daily basis and that staff may not be reporting the discrepancies due to their regularity and at times, their immateriality.

   It is recommended:
   That management review the incidence of cash surpluses and shortages and establish a threshold for reporting discrepancies to the branch manager.

   Management Response:
   Agreed. Branch Managers will be required to review the Daily Cash Sheets and initial the Branch Cash Reports effective in the 1st quarter 2008.

   Follow Up Comment:
   Not Completed. There is no evidence that Branch Managers review Daily Cash Sheets. Although Branch Managers initial the monthly Branch Cash Reports, a threshold for reporting discrepancies has not been established. Large (% wise) cash differences still occur and there is no evidence that they are investigated.

2. The Room Rentals policy requires that room rentals be paid for in advance. While the majority of rentals reviewed were paid for on or before the event date, a review of 2006 and 2007 invoices indicated that some clients used library facilities before making payment. At the end of September 2007, nine invoices remained unpaid for events that had already been held, some of them as far back as February and July 2006.

   It is recommended:
   That the Library’s security staff obtain proof of payment prior to granting room access for library facilities to rental customers.

   Management Response:
   Disagreed. The Room Rentals policy states that room rentals “should” be paid in advance but do not make it mandatory. Most of our room bookings are to community groups and mandating payment in advance would restrict access to meeting space by some of the groups. Room booking requests for groups that have not paid in the past are denied. Staff will review the monitoring procedure in 2008 for unpaid room rentals.

   Follow Up Comment:
   Alternative Implemented. The Library still permits patrons to use rooms before payment is made. However, payment patterns have improved, with the majority of customers paying for rentals in advance. The Business Office follows up unpaid room rental invoices and makes a list of customers with unpaid balances. The list is forwarded to a clerk in the booking office who places a note on the customer’s file in the FilePro system. A procedure that does not allow a customer to make another booking before the outstanding balance is cleared has been put in place.
3. Each branch is issued with a stock of sequentially pre-numbered deposit slips that also bear the branch’s unique deposit slip number. Deposits are supposed to be made in accordance with the sequential numbering on the deposit slips to facilitate the monitoring of deposits. Three of the nine branches selected by Internal Audit did not complete documentation in the order of the sequential numbering on the bank deposit slips, making it difficult to establish the completeness of deposits.

It is recommended:
That the Business Office conduct periodic training sessions for branch personnel that have cash handling responsibilities to ensure that the deposit process is standardized across all library branches.

Management Response:
Agreed. The existing cash handling training program for branch personnel will be reviewed and standardized across all library branches. This will be co-ordinated with the review of procedures around fine collection to be undertaken in the 2nd quarter 2008.

Follow Up Comment:
Completed. Deposits made by branches are being made in accordance with the sequential numbering on the deposit slips. Staff from the Business Office conduct training sessions for branch staff who handle cash. In addition, the library’s cash handling procedures are posted on the library’s intranet (HPLNet) that is accessible to staff in the Circulation Department.

4. The following observations were noted during visits to two of the library’s 24 branches:

a) At one branch, cash is not reconciled to Daily Cash Sheets on a daily basis, resulting in differences accumulating for the two week period and being reported on the day of banking. Cash differences for the period can therefore not be attributed to a particular day, making it difficult to investigate the cause of the difference. Also, it does not appear that cash differences are reported to the Branch manager as required by policy.

It is recommended:
That Daily Cash Sheets be reconciled to cash on hand on a daily basis and that variances be reported to the Branch Manager and investigated.

Management response:
Agreed. Staff will be instructed to reconcile Daily Cash Sheets to cash on hand on a daily basis and Branch Managers will be required to review the daily cash sheets and initial the Branch Cash Reports effective in 2008.

Follow Up Comment:
In Progress. Daily Cash Sheets are compared to the cash on hand on a daily basis. However, the Daily Cash Sheets still show large unreconciled cash differences. Although the Branch Cash Reports are signed by Branch Managers at month end, there is no evidence on the Daily Cash Sheets that the variances are reported to the Branch Manager and investigated within a reasonable time.
b) Daily Cash Sheets are sometimes written in pencil, exposing them to the risk of manipulation.

and

c) At one branch, cash is kept in a drawer at the front desk overnight instead of being stored in a locker located outside public view.

It is recommended:
That the Business Office and branch management conduct training to ensure that staff with cash handling responsibilities comply with policies and procedures.

Management response:
Agreed. The existing cash handling training program for branch personnel will be reviewed and standardized across all library branches. This will be co-ordinated with the review of procedures around fine collection to be undertaken in the 2nd quarter 2008.

Staff will be instructed immediately that Daily Cash Sheets are to be written in ink.

A review of how cash is stored overnight at the branches will be undertaken in the 1st quarter 2008 to ensure that cash is appropriately protected.

Follow Up Comment:
In Progress. The branch whose cash was kept in drawer at the front desk overnight is now locking the cash in a safe in the basement. One branch visited still had Daily Cash Sheets written in erasable pencil.

d) At one branch, room rentals are billed for one four hour period regardless of the duration of the rental. For example, none of the sampled bookings were billed for more than one four-hour period, despite the fact that some of them had used the facility for an entire day.

It is recommended:
That branch management ensure that staff comply with the library’s policies and procedures regarding room rentals.

Management response:
Agreed. Room rental policies and procedures will be reviewed with Branch Managers by the end of 2007.

Follow Up Comment:
Completed. The branch that was not complying with the room rental policy is now billing customers in four hour increments in accordance with the policy. The Financial Accounting Clerk reviewed the room rental policies with the Branch Manager.