



**Audit of Milwaukee Public Library Agreements with
Milwaukee County Federated Library System**

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City of Milwaukee, Wisconsin
January 2005

Table of Contents

Transmittal Letter.....	1
Audit Scope and Objectives	2
Organizational and Fiscal Impact	3
Audit Conclusions and Recommendations	5
Overall Conclusions	5
Milwaukee County Federated Library System Member Agreement (2001 through 2004)	6
Recommendation 1: Consider Calculating Marginal Cost of Reciprocal Borrowing	8
Resource Library Agreement (2001 through 2003)	9
Recommendation 2: Survey Reference Library Patrons	11
Recommendation 3: Consider Calculating Marginal Cost of Resource Library Services	11
Lease Agreement (through 2005)	13
Recommendation 4: Continue to Survey Market Rental Rates.....	14
Recommendation 5: Require 30 Day Insurance Cancellation Notice	14
Delivery Services Contract (2004)	15
Agreement for Bibliographic Database Development and Maintenance (2002 through 2004)	16
Exhibit I MCFLS Financial Statements (1998 through 2002)	17
Exhibit II LSTA Grants (1997 through 2002).....	18
Exhibit III MPL Description of Resources Available at the Central Library	19
Exhibit IV Marginal Cost Analysis	21
Department Response	22



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January 28, 2005
Office of the Comptroller

To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of Milwaukee Public Library Agreements with Milwaukee County Federated Library System. The objectives of the audit were to determine whether the Milwaukee Public Library (MPL) was in compliance with the major terms of its agreements with the Milwaukee County Federated Library System (MCFLS) and to evaluate the underlying method(s) used to establish the cost basis of each agreement.

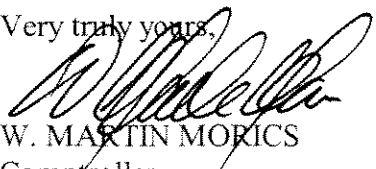
With one minor exception, the audit determined that the MPL and MCFLS were in compliance with the terms of the five agreements in existence during the performance of the audit. This exception involves a MCFLS insurance cancellation notice requirement relating to its space Lease Agreement with MPL.

MPL should continue to survey current rents in the area to establish a market rental rate for use in negotiations for future space lease extensions. MPL should also survey the users of its resource library services to determine how to further enhance the services and to identify the county and city/village of residence for these users. Finally, MPL should use marginal costs to help negotiate compensation in the next round of Member Agreement and the Resource Library Agreement negotiations with member libraries and MCFLS.

Audit findings and recommendations are discussed in the Audit Conclusions and Recommendations section of the report, followed by the Milwaukee Public Library's response.

Appreciation is expressed for cooperation extended by the staff of the MPL and the Department of Administration – Budget and Policy Division.

Very truly yours,


W. MARTIN MORICS
Comptroller

Audit Scope and Objectives

The audit covered the following five agreements between Milwaukee Public Library (MPL) and Milwaukee County Federated Library System (MCFLS).

1. MCFLS Member Agreement (2001 through 2004)
2. Resource Library Agreement (2001 through 2003)
3. Lease Agreement (through 2005)
4. Delivery Services Contract (through 2004)
5. Agreement for Bibliographic Database Development and Maintenance (2002 through 2004)

The objectives of the audit were to:

1. Evaluate compliance with major contract terms.
2. Evaluate the underlying cost basis for the agreements to assess the appropriateness of contract billing amounts.

The audit included interviews with MPL management and Department of Administration – Budget and Policy Division staff and review of available information and supporting records. Information relating to revised agreements between MPL and MCFLS (2005 and beyond) was reviewed to the extent that such information was available. However, the 2005 agreements were not audited.

Organizational and Fiscal Impact

The Milwaukee Public Library (MPL) is currently a member of the Milwaukee County Federated Library System (MCFLS). MPL includes the City of Milwaukee Central Library, 12 neighborhood libraries and the Mobile Library & Outreach Services. In addition to MPL, 14 suburban library systems in Milwaukee County are members in MCFLS. These libraries are located in the following municipalities:

Brown Deer	Hales Corners	South Milwaukee
Cudahy	North Shore	Wauwatosa
Franklin	Oak Creek	West Allis
Greendale	St. Francis	Whitefish Bay
Greenfield	Shorewood	

Wisconsin State Statutes Chapter 43 specifies requirements for the formation of a public library system and eligibility for associated State funding. Chapter 43 allows the formation of either a consolidated public library system or a federated public library system. For Milwaukee County the chief difference is that a consolidated system would be an agency of the county while the federated system is a separate legal entity.

The main advantages of participation in MCFLS are:

1. Residents in all participating Milwaukee County municipalities can go to any member library in the system and withdraw books, videos, music and other resources. Residents can reserve items in any member library's collection and can have them delivered to their local library.
2. Residents of all participating municipalities have access to the MPL Central Library's reference services and specialized collections.
3. Individual member libraries do not have to purchase materials that duplicate items in other member libraries' collections.
4. Member libraries share a centralized online catalog of materials, which relieves individual member libraries of the significant cost of maintaining individual catalogs.

MPL has entered into five agreements with MCFLS and the other member libraries. MPL received a net payment of \$671,671 under these agreements in 2003.

In order to form MCFLS, all 14 participating libraries have entered into the Member Agreement effective through December 31, 2004. This Agreement requires all system

libraries to provide library services to residents of all participating municipalities and sets the rates to be paid by each member library for items borrowed by its residents from other member libraries. The Agreement also provides for payments to MCFLS by member libraries for supplies and automation costs. MPL paid a total of \$1,196,693 to MCFLS and other member libraries for 2003.

MPL receives payment from MCFLS for each of four other agreements relating to the operation of the Federated Library System as follows:

MPL Services Provided to MCFLS	MPL Annual Revenues
Reference Services	\$1,300,000
Bibliographic Services	410,000
Office Space Lease	105,000
Library Materials Delivery	<u>53,000</u>
Total	\$1,868,000

The Member Agreement requires MCFLS to submit audited financial statements to the Wisconsin Department of Public Instruction annually. Exhibit I provides a summary of financial statement activity from 1998 through 2002. The MCFLS financial statements indicate that gross revenues decreased by \$1.3 million and net income decreased by about \$0.5 million from 2000 to 2002. The decrease in revenues is caused in part by decreases in reciprocal borrowing payments which are reflected in the financial statements both as revenues and expenditures.

A revised Member Agreement effective in 2005 has been approved by MCFLS, MPL and five other member libraries. The revised agreement does not address the rates to be paid by member libraries for items borrowed from other member libraries. Instead, the revised agreement leaves it up to individual member libraries to arrange payments with each other.

A revised Resource Library Agreement effective in 2005 reduces the MCFLS payment to MPL from \$1.3 million in 2004 to \$725,000 annually. Revised Delivery Services and Bibliographic Database Development and Maintenance Agreements effective in 2005 provide for nominal increases in payment to MPL by MCFLS. The Lease Agreement continues under the same terms in 2005.

Audit Conclusions and Recommendations

Overall Conclusions and Recommendations

The audit determined that, with one minor exception, the MPL and MCFLS were in compliance with the major terms of the five agreements in effect during the performance of the audit. The exception was related to a required 30 day advance MCFLS notice to the MPL in the event of insurance cancellation, non-renewal or material change. The current certificate of insurance provides for only a 10 day notice. This inconsistency should be corrected by MCFLS.

MPL should continue to survey current rents in the area to establish a market rental rate for use in negotiations for future lease extensions. MPL should also perform a survey to identify the needs of resource library users and their related residence. In addition to helping determine how to further enhance the service, such a survey would establish the extent of City reference services provided to non-City residents both within and outside Milwaukee County.

MPL should also consider calculating its marginal or incremental costs for reference library services provided and likewise encourage member libraries to perform the same incremental cost analysis related to their interlibrary loan services to help establish fair compensation during the next set of negotiations in 2007.

MCFLS Member Agreement (2001 through 2004)

MPL and MCFLS are in compliance with the major terms of the 2004 Member Agreement. Major terms of the Agreement are stated below, along with an assessment of compliance.

Wisconsin Statutes (43.24(2)) requires written agreements between member libraries forming federated library systems. These agreements provide any resident of a participating library system with access to the services and resources of all participating libraries this includes the interlibrary loan of materials.

The MPL Member Agreement with MCFLS as discussed below was effective from January 1, 2001 through December 31, 2004.

Member libraries must calculate an average per unit circulation cost on an annual basis. Total eligible expenditures (expenditures for all non-maintenance salaries, fringe benefits, materials, postage and supplies) are divided by total annual circulation. MPL calculated its per unit circulation rate as required by the Agreement. The 2003 rate is \$2.67 derived from 2002 qualifying expenditures of \$8,767,757 and total 2002 circulation of 3,281,137 units.

The Agreement states that a net borrowing library is one whose residents check out more materials from libraries in other municipalities than residents of those municipalities check out from that library. A net lending library is one whose residents check out fewer materials from libraries in other municipalities than residents of those municipalities check out from that library.

Net borrowing libraries pay the lesser of the lending library's per unit cost or an agreed upon rate established by the Member Agreement for each item borrowed. This rate was \$1.00 for borrowing from October 1, 2003 through September 30, 2004. Lending libraries received \$1.50. The fifty cents difference is paid by MCFLS to net lending libraries. MCFLS calculates payments to be made by net borrowing libraries, collects these payments and makes payments to net lending libraries. These payments are referred to as reciprocal borrowing payments. Borrowing costs paid by the MPL amounted to \$1,030,109 for 2004 based on activity from October 1, 2002 through September 30, 2003.

Member libraries must submit an annual report to the Wisconsin Department of Public Instruction. This report provides financial and statistical information and in part describes library services planned for the coming year. Member libraries must include a statement in the report concerning whether MCFLS has provided effective leadership and adequately meets their needs with an accompanying explanation regarding why the member library board reached this conclusion. MPL submitted the Public Annual Report for the calendar year 2002 to the Wisconsin Department of Public Instruction on February 19, 2003. In this report, MPL certified that MCFLS provided effective leadership and adequately met its needs as a member library.

MCFLS must submit annual audited financial statements to the Wisconsin Department of Public Instruction. Audited financial statements were submitted by MCFLS to MPL for 2001 and 2002 indicating that this requirement was met. Refer to Exhibit I for a summary of financial statement activity. Unqualified auditor opinions accompanied financial statements for each of these years.

Billings for supplies, forms and postage must be made to member libraries on a quarterly basis. MPL paid MCFLS \$62,463 for these materials in 2003 in a timely manner.

Automation costs are to be billed to member libraries on an annual basis. MPL paid MCFLS \$104,121 for 2003 based on 2002 activity.

Member libraries are required to meet annually to determine how federal Library Services and Technology Act (LSTA) grant funds should be used. Such funding to MCFLS for 1997 through 2002 totaled \$376,280. Exhibit II provides a list of LSTA grant funded projects.

Member Libraries assumed ownership responsibility for all remote site computer equipment (non-network) on December 31, 2002 as required in the Member Agreement.

A new Member Agreement effective January 1, 2005 through December 31, 2007 has been approved by the City and MCFLS. Under the new Agreement, MCFLS will not be involved in making payments to net lending libraries from net borrowing libraries. Amounts charged to net borrowing libraries will be determined by negotiations between individual member libraries. MPL and DOA – Budget and Policy Division (Budget) staff stated that there has been disagreement among member libraries about the amount of reimbursement to net lending libraries. In general, net lending libraries contend that they

are not reimbursed the full cost of lending. Since MPL is a net borrowing library, any increase in reimbursement would increase costs to the City. As of December 31, 2004, MPL had negotiated agreements with ten of the fourteen suburban libraries.

During negotiations for the 2001-04 Member Agreement, MPL and City Budget staff suggested using marginal (incremental) costs rather than average costs to establish the proper amount of reimbursement to net lending libraries. Marginal (incremental) costs are costs that a net lending library would actually save or avoid if it did not participate in interlibrary loans (“reciprocal borrowing”).

Exhibit IV provides an example of the calculation of marginal costs for a sample MCFLS municipality. As the exhibit shows, a library’s marginal costs would be substantially lower than its average costs. This is because there are many library costs such as heating/air conditioning, core staffing, building depreciation, etc. unaffected by the interlibrary borrowing program. The City and MCFLS have jointly paid for interlibrary loans based on average costs prior to 2005. Therefore, the use of average costs has likely resulted in over-reimbursement to net lending libraries by the City of Milwaukee and MCFLS in prior years. This in turn provides an incentive for some member libraries to further expand their facilities, attracting additional residents of other member municipalities. MPL and Budget staff stated that suburban libraries rejected the marginal cost approach during negotiations for the 2001-04 Member Agreement.

Recommendation 1

MPL should calculate its marginal or incremental cost of reciprocal borrowing and encourage other member libraries to do so for use in negotiating member agreements after the current agreement expires in 2007.

Cost is not the only factor to be considered in designing an appropriate Member Agreement. As described in the Organizational and Fiscal Impact section of this report, participation in MCFLS provides several important advantages to member libraries. One major advantage of the interlibrary loan program is the convenience it affords to all Milwaukee County residents. However, cost remains an important consideration. Marginal or incremental cost provides a more accurate, equitable measure of both the expense of participating in and the savings of withdrawing from reciprocal borrowing.

Resource Library Agreement (2001 through 2003)

MPL and MCFLS are in compliance with the major terms of the 2001-2003 Resource Library Agreement. MPL should quantify the incremental costs required to provide County-wide Resource Library services. Major terms of the existing agreement are stated below along with an assessment of compliance.

Wisconsin Statutes and the 2004 Member Agreement obligate MCFLS to provide backup reference and information services by a Resource Library to MCFLS member libraries and their patrons, including access to specialized collections on the same terms and conditions as such services are extended to City residents. Wisconsin Statutes (43.16(2)) requires a resource library to have a collection of at least 100,000 volumes, be open to the public at least 50 hours per week and employ at least one full time reference librarian. MPL is the designated Resource Library for MCFLS. The Resource Library Agreement between MPL and MCFLS was in effect from January 1, 2001 through December 31, 2003.

The 2001-2003 Resource Library Agreement required that MCFLS pay MPL \$1,300,000 for each of the three years. Because the new Resource Library Agreement was not executed by December 31, 2003, MCFLS is obligated to pay MPL \$1,300,000 for services rendered in 2004 as the resource library. Payments were required on a quarterly basis. MPL and MCFLS were in substantial compliance with the payment terms of this agreement in 2003. MCFLS made quarterly payments of \$325,000.

MPL is in compliance with the terms of this Agreement. The Public Library Annual Report filed by MPL with the Wisconsin Department of Public Instruction indicates that the Wisconsin statutory requirements cited above have been fulfilled by MPL. MPL staff provided the auditors with a detailed description of services provided, included in Exhibit III.

MPL provided a listing of major line item costs associated with its reference services as the MCFLS Resource Library. But no position level or other detail was available, apparently due to the Library's method of budget preparation. DOA – Budget and Policy Division provided documents that indicate 1998 Resource Library costs were \$4,445,046 and that non-City resident Resource Library use was 32.16 percent. Applying this percentage to the costs resulted in the 1999 Resource Library payment to MPL of \$1,429,527. Similar calculations resulted in a 1998 payment of \$1,474,655 from MCFLS

to MPL.

According to MPL and DOA – Budget and Policy Division staff, other member libraries are of the opinion that the \$1.3 million payment to the City far exceeded the cost of the Resource Library services provided to them. The lack of supportable cost of service information no doubt contributes to the perception of other member libraries that MPL may be receiving excess reimbursement from MCFLS. These libraries have also apparently asserted that this payment to MPL reduced resources from MCFLS at a time when its funding has been decreased by the State. MPL staff stated that records documenting member (Milwaukee County resident) use of the Resource Library are not available.

Also, member libraries have apparently been critical about residents outside of Milwaukee County receiving free reference services from MPL. A 2001 survey of reference library patrons indicated that approximately 42 percent of non-City resident patrons receiving Resource Library services lived outside of Milwaukee County. This would mean that about 10-15 percent of City resource library usage is by persons outside Milwaukee County. Prior to 2001, payment was based on a quarterly survey of patrons' city of residence. Such surveys have not been performed in recent years.

A new agreement has been approved by the City and MCFLS effective January 1, 2005. This new agreement reduces the compensation received by MPL from MCFLS from \$1,300,000 to \$725,000 (minus 44% from 2004). The reasons for this reduction in revenue appear to be twofold. First, MCFLS is experiencing a decrease in funding from the State of Wisconsin. DOA – Budget and Policy Division staff stated that the amount of this decrease was approximately \$600,000. Second, the revised Agreement is apparently designed not to compensate MPL for providing reference services to patrons who live outside of Milwaukee County. The MCFLS Board sent letters to the State of Wisconsin Department of Public Instruction and to adjacent counties asking for funding for reference service costs. No funding was offered.

MPL staff stated that they intend to reinstate surveys of reference library patrons to obtain better information on their county of residence. This survey would determine the nature and extent of MPL Resource library services to non-city of Milwaukee users within and outside Milwaukee County.

As mentioned above for the Member Library Agreement, the concept of marginal or

incremental cost provides a fair, more equitable basis for negotiation of future resource library agreements. Marginal cost in this case consists of the costs which MPL could save or avoid if they did not serve resource library patrons who reside outside the City of Milwaukee. MPL believes that no significant cost reduction to the Resource Library service can occur without effectively destroying this service. It was beyond the scope of this audit to either confirm or refute this assertion.

For 2005-2007, MPL has seen its compensation for resource library services decline annually by \$575,000 (minus 44%). To provide a strong basis for future negotiations and promote the continuation of Milwaukee County-wide resource library services, an accurate marginal-incremental costing of these services should be performed. The impact of marginal costing on future MPL compensation beyond 2007 would depend upon the extent of services now provided to Milwaukee County residents living outside the City and the actual cost reductions possible in the event that this service was no longer available to patrons residing outside the city of Milwaukee.

Recommendation 2

The audit agrees that MPL's planned survey of reference library patrons would provide useful information about how to best serve these patrons as well as their resident location. The results of this survey may be useful in obtaining funding from reference library patrons' counties of residence. Alternatively the Mayor and Common Council may wish to consider charging a fee for reference services provided to non-Milwaukee County residents.

Recommendation 3

MPL should perform a detailed cost and scope of service analysis to determine the marginal or incremental cost of providing the current array of resource library services to non-City residents. Such an analysis would be of use in negotiating a resource library agreement to be effective after 2007. It is unclear what the impact of marginal costing of resource library services would be on the MPL compensation under the next contract. Should this detailed reference service cost analysis show that any significant reduction in the scope or depth of current reference services would effectively destroy the Resource Library service, then two alternatives are open to the City and MCFLS members in order to continue this service:

1. Charge for research and reference services on a fee-for-service basis, or
2. Allocate the costs of the reference service to all participating jurisdictions similar to what is currently done. One difference from current practice would

be to include non-MCFLS member municipalities in this financial arrangement if the above user survey shows significant usage outside Milwaukee County.

As mentioned above, MPL reimbursement has already been reduced annually by 44 percent for 2005-2007. Also, service level and other non-financial factors will no doubt heavily influence the next contract negotiations. However, the consistent application of incremental costing for use in both the future Member and Resource Library Agreement negotiations with MCFLS members would

- Provide an accurate estimate of the true budget impact on each MCFLS member municipality should they consider withdrawing from the Agreements.
- With the aid of credible cost information, encourage meaningful, co-operative contract negotiations with MCFLS members in the next round of negotiations.
- Promote the cost-effective use of all County-wide library resources.
- Help sustain the continuation of an active, fully operational Federated Library system within Milwaukee County.

Lease Agreement (through 2005)

MPL and MCFLS are in compliance with payment terms of the Lease Agreement. MCFLS is not in complete compliance with terms of insurance requirements. Major terms of the Lease Agreement are stated below along with an assessment of compliance.

The original lease between MPL and MCFLS became effective January 1, 1994 and was effective for seven years ending December 31, 2000. There have been two subsequent lease agreement extensions resulting in a current expiration date of December 31, 2005. Under the lease, MCFLS leases space at the MPL Central Library and is required to make quarterly payments totaling \$105,000 annually for 2003 through 2005. Payment records for 2002 and 2003 provided by MPL and City accounting records verify that lease payments were made on a timely basis.

MPL staff stated that the market rate for comparable office space in the Central Library area is surveyed each time a new lease is negotiated. However, the rent charged is a negotiated amount that may not precisely reflect market rental rates because it is to MPL's advantage to have MCFLS staff located in the Central Library building.

MCFLS is required to maintain two types of insurance. The first is general liability coverage of \$1,000,000 per occurrence, property damage and contractual liability of \$2,000,000 aggregate. MCFLS is required to furnish MPL with a certificate of insurance which provides for a 30 day written notice of cancellation, non-renewal or material change. MCFLS is not in complete compliance with the requirement. The certificate provides for only a 10-day notice of cancellation. Limits of insurance coverage comply with lease requirements. The policy is effective from January 1, 2004 through January 1, 2005.

MCFLS is also required to maintain insurance against fire, vandalism, malicious mischief and other perils. MPL staff stated that they had verified that MCFLS maintains this insurance.

MCFLS is required to pay for the cost of phone services on a quarterly basis if it uses the City's phone system. MCFLS has complied with this requirement.

Recommendation 4

MPL should continue to survey the market rental rates for comparable office space in the Central Library area each time a new lease is negotiated.

Recommendation 5

MPL should require that MCFLS provide a liability insurance certificate with a 30 day cancellation notice.

Delivery Services Agreement (2004)

MPL and MCFLS are in compliance with the terms of the Delivery Services Agreement. Major terms of the Delivery Services Agreement are stated below along with an assessment of compliance.

There is a one-year agreement (effective January 1, 2004) between MPL and MCFLS for MPL to provide delivery services of library materials from the MPL Central Library to and from 12 MPL neighborhood libraries and with appropriate notice to other points designated by MCFLS. MCFLS is obligated to pay MPL \$54,696 for providing these services in 2004. MCFLS was in compliance with its payment obligations to MPL under a similar agreement in 2003. MCFLS paid MPL \$53,362 in 2003 for providing delivery services. The cost of delivery service is based on the salary and fringe benefits of one MPL driver position.

A new Delivery Services Agreement effective January 1, 2005 will increase payments to MPL by MCFLS to \$55,654.

**Bibliographic Database Development
and Maintenance Agreement (2002 through 2004)**

MPL and MCFLS are in compliance with the major terms of the 2002 through 2004 Bibliographic Database Development and Maintenance Agreement. Major terms of the Bibliographic Database Development and Maintenance Agreement are stated below along with an assessment of compliance.

A formula is used to calculate costs relating to bibliographic services provided by MPL to MCFLS. MCFLS is responsible for funding 85 percent of the cost of MPL staff positions directly involved with provisions of this agreement. In 2003 there were three Librarian III and six Copy Cataloging Technician II positions that provided applicable bibliographic services. 2003 salaries for these positions amounted to \$345,774 and fringe benefits amounted to \$136,581. Total salaries and fringe benefits for these positions amounted to \$482,355 and 85 percent of this total cost amounted to \$410,002 or \$102,500 on a quarterly basis. MCFLS and MPL were in compliance with payment requirements of the agreement. MPL received \$102,500 on a quarterly basis in 2003 in accordance with the terms of the agreement.

A new Bibliographic Database Development and Maintenance Agreement effective January 1, 2005 will increase payments to MPL by MCFLS to \$418,972.

Exhibit I

MCFLS Financial Statements

These audited financial statements prepared by Kerber, Eck & Braeckel, LLP for 1998 through 2002 indicate that the financial position and operating results are presented fairly in all material respects.

	<u>12/31/2002</u>	<u>12/31/2001</u>	<u>12/31/2000</u>	<u>12/31/1999</u>	<u>12/31/1998</u>
Revenues	\$3,339,368	\$3,303,817	\$4,688,836	\$4,450,340	\$4,445,994
Expenditures	<u>3,338,667</u>	<u>3,291,844</u>	<u>4,535,506</u>	<u>4,382,985</u>	<u>4,348,574</u>
Net	\$ 701	\$ 11,973	\$ 153,330	\$ 67,355	\$ 97,420
Current Assets	\$3,770,437	\$3,674,538	\$3,585,878	\$3,436,639	\$3,325,508
Deferred Compensation	-	-	384,757	402,203	326,856
Equipment	<u>2,771,720</u>	<u>4,255,972</u>	<u>4,253,447</u>	<u>4,248,947</u>	<u>4,248,479</u>
Total Assets	<u>\$6,542,157</u>	<u>\$7,930,510</u>	<u>\$8,224,082</u>	<u>\$8,087,789</u>	<u>\$7,900,843</u>
Current Liabilities	\$1,665,678	\$1,569,440	\$1,491,199	\$1,497,884	\$1,454,108
Deferred Compensation	-	-	384,757	402,203	326,856
Fund Equity	2,771,720	4,255,972	4,253,447	4,248,947	4,248,479
Fund Balances	<u>2,104,759</u>	<u>2,105,098</u>	<u>2,094,679</u>	<u>1,938,755</u>	<u>1,871,400</u>
Totals	<u>\$6,542,157</u>	<u>\$7,930,510</u>	<u>\$8,224,082</u>	<u>\$8,087,789</u>	<u>\$7,900,843</u>

Exhibit II

LSTA Grants

February 2002	\$13,400	Programming for special needs youth project.
December 2000	27,900	Software services for hardware conversion project
December 2000	14,100	English as a second language project
December 1999	65,120	Millennium software project
December 1999	17,700	Youth assistive devices project (youth with disabilities)
November 1998	50,180	Internet access hardware project
November 1998	43,260	House of Correction library project
November 1998	14,950	Serving Children with special needs project
May 1997	10,000	Internet-Web page development project
June 1997	17,603	References databases "specialized" database project
	2,067	Additional expenditures paid by MCFLS
May 1997	50,000	Automated systems add-on project
	<u>50,000</u>	Matching funds provided by MCFLS
	<u>\$376,280</u>	Total LSTA Grants and related contributions

Exhibit III

MPL Description of Resources Available at the Central Library

The Central Library is available to assist with any reference question received from any member library or their residents during all hours we are open to the public. Service is provided in person, by telephone, by U.S. mail and remotely through email and our self-service web page. All departments accept reference calls and provide thorough and detailed information. Ready Reference provides answers to short questions.

To meet these service demands special materials are purchased for reference use and for circulation. Reference collections are in print and electronic formats and are found in each of Central Library subject departments. These resources ensure that librarians have the needed tools to answer questions and that the public has the most up-to-date information they need. Some reference books are not purchased by any other library in the Milwaukee County Federated Library System or in the State of Wisconsin. Art Price Annual & Falck Art Price Index and The Directory of 28,000 Artists and their Museums are just two examples. Other reference books such as World Architecture 1900-2000 are only available at the Central Library and a few academic libraries.

Central Library's circulating collection of fiction and non-fiction materials is the largest of any member library. Over 1.4 million books are available including current and historical works of both a general and specialized nature. The collection has been developed over 125 years, during which the library served as a research institution for college students. While this role now falls to local universities and colleges, the historical and research works remain, contributing to the richness and depth of the collection. Multiple copies of many books are regularly purchased for lending and preservation purposes.

Member libraries and their residents have access to the best public library collection of serials, which includes nearly 10,000 new and historical periodicals. A wide range of subject matter is covered, from foreign newspapers, to technical journals, to auction catalogs. While an increasing amount of information is available in full-text databases, article published before 1990 are generally available only in their original format, making the historical collection all the more valuable.

Milwaukee County residents also have access to the Central Library's extensive business collection. It includes materials covering all aspects of business: start-ups, finance, marketing, investments, demographics, engineering, etc. A number of items are not found elsewhere in the County. Examples include the current state manufacturing directories for all 50 states, the Thomas Registers of Manufacturers, dating back to the beginning of the 20th century, and The Money Directory of Pension Funds.

The library is one of just two Wisconsin public libraries that provide access to industrial and engineering standards. Of 2,035 requests for documents received last year, 42% of those requests were for standards. In addition, the Central Library has the only collection of military specifications and is the only Patent Depository library in the state.

The Central Library is a regional depository for U.S. government documents. The library receives everything published by the Government Printing Office in various formats and has a collection of over one million items. The Library also maintains a collection of documents acquired through participation in the State Document Depository Program,

The Central Library is also home to the Betty Brinn Children's Room, which houses one of the largest collections of children's literature in Wisconsin. In addition to extensive fiction and non-fiction books for young reader, several special collections make the room an important research site. They include the Wisconsin Authors collections and an extensive collection of folktales, fairy tales and poetry. Many of these reference books are duplicated in the circulating collection. The collection and programs are used heavily by families from throughout Milwaukee County.

Source: Milwaukee Public Library

Exhibit IV

**Marginal (Incremental) Cost Analysis
For a Sample MCFLS Member Library**

Based on actual 1997 expenditures and circulation for a MCFLS member library.

Assumptions:

- Sample MCFLS library circulation = 221,600 units for the year.
- 15 % of circulation due to reciprocal borrowing.
- 5 % of eligible personnel costs avoidable if reciprocal borrowing terminated.
- 15 % of all other budgeted eligible costs avoidable if reciprocal borrowing terminated.
- Other Non-eligible expenditures = \$10,000.

Item	Expenditures		Net Costs After Termination of Reciprocal Borrowing	Percentage Reduction w/o Reciprocal Borrowing
	Total Costs	Marginal Costs		
Salaries & Fringe Benefits	\$307,410	\$14,595 *	\$292,815	4.7 %
Materials – Eligible	54,750	8,212	46,538	14.9 %
Circulation Related Postage – Eligible	1,140	171	969	15.0 %
Supplies – Eligible	7,000	1,050	5,950	15.0 %
Other Non-eligible Expenditures	<u>10,000</u>	<u>-0-</u>	<u>10,000</u>	<u>N/A</u>
Total Library Expenditures	\$380,300	\$24,028	\$356,272	6.3 %
Total Expenditures per Unit	\$1.72	\$ 0.11	N/A	N/A

* 5 percent of Actual Eligible personnel costs of \$291,910.



MILWAUKEE PUBLIC LIBRARY

KATHLEEN M. HUSTON
CITY LIBRARIAN

January 26, 2005

Mr. W. Martin Morics, Comptroller
City Hall Room 404
200 E. Wells St.
Milwaukee, WI 53202

Dear Mr. Morics:

On behalf of the Milwaukee Public Library, I thank the staff of the Comptrollers Office for the time they spent conducting an audit of the library's agreements with the Milwaukee County Federated Library System.

Attached are our responses to the recommendations made by your department. If there are any questions, please call me (ext. 3020) or Library Business Operations Manager Taj Schoening at extension 3024.

Sincerely,

A handwritten signature in black ink that reads "Kathleen M. Huston". The signature is written in a cursive, flowing style.

Kathleen M. Huston
City Librarian

Milwaukee Public Library Response to Audit

MCFLS Member Agreement

Recommendation 1

MPL should calculate its marginal or incremental cost of reciprocal borrowing and encourage other member libraries to do so for use in negotiating member agreements after the current agreement expires in 2007.

1. As stated in the Audit Report, during the negotiations for the 2001 through 2004 Member Agreement, the City of Milwaukee advocated for using marginal cost to determine a per circulation rate. Since this would have reduced the compensation received by lending libraries, it was not accepted.

MPL currently has agreements with other member libraries that stipulate the exact payment that the City will make for reciprocal borrowing activity. MPL can certainly recommend this method in any future contract negotiations.

Resource Library Agreement

Recommendation 2

The audit agrees that MPL's planned survey of reference library patrons would provide useful information about how to best serve these patrons as well as their resident location. The results of this survey may be useful in obtaining funding from reference library patrons' counties of residence. Alternatively, the Mayor and Common Council may wish to consider charging a fee for reference services provided to non-Milwaukee County residents.

2. The resources of the Central Library are important to residents and businesses in the City as well as outside. Free and open access to information is a hallmark of public library service. Residency restrictions would impede that flow of information and knowledge. MPL does restrict lending materials to those with a MCFLS library card or a fee card. However, checking someone's card every time they enter the building or ask a question would be a deterrent to use of the library.

Past surveys documented residency as City of Milwaukee, County of Milwaukee, and other. The new survey will identify the residency of users from out of the County. We hope that this information will offer insight in the use of the Central Library. In the past we have sought funding from the State and if we approach them in the future, free and open access will add weight to our request.

Recommendation 3

MPL should perform a detailed cost and scope of service analysis to determine marginal or incremental cost of providing the current array of resource library services to non-City residents. Such an analysis would be of use in negotiating a resource library agreement to be effective after 2007. It is unclear what the impact of marginal costing of resource library services would be on the MPL compensation under the next contract. Should this detailed reference service cost analysis show that any significant reduction in the scope or depth of current reference services would effectively destroy the Resource Library service, then two alternatives are open to the City and MCFLS members in order to continue this service:

- 1. Charge for research and reference services on a fee-for-service basis, or*
- 2. Allocate the costs of the reference service to all participating jurisdictions similar to what is currently done. One difference from current practice would be to include non-MCFLS member municipalities in this financial arrangement if the above user survey shows significant usage outside Milwaukee County.*

...MPL reimbursement has already been reduced annually... However, the consistent application of incremental costing for use in both the future Member and Resource Library Agreement negotiations with MCFLS members would

Provide an accurate estimate of the true budget impact on each MCFLS member municipality should they consider withdrawing from the Agreements.

With the aid of credible cost information, encourage meaningful, cooperative contract negotiations with MCFLS members in the next round of negotiations.

Promote the cost-effective use of all County-wide library resources.

Help sustain the continuation of an active, fully operational Federated Library System within Milwaukee County.

3. MPL strongly disagrees with several assertions made in this Report. The Audit Report asserts that using marginal cost for reference services is "a fair, more equitable basis for negotiations" and would give the "true budget" impact on members considering withdrawal from the System. MPL does not agree that we should calculate incremental cost when this service is not based on distinct units produced or units of activity.

Reference services and materials are not units of production with clear incremental costs. We agree with use of marginal costing for circulation because this activity can be measured as a unit of activity. This is not the case with reference services. Requests can come in person, by telephone, mail, email or via the web page. Responding to requests for information or guiding someone to the most suitable collection/data means that the resource materials and a minimum level of staff must be available. Whether the resource is used by ten or twenty people, whether they come from the City or outside, the collections must be there. The professional staff must keep these collections as well as their knowledge and expertise up-to-date.

The Central Library has significant collections that have been developed since the Library's inception. Individuals and businesses utilize the extensive business collection and Patent Depository. We are one of two public libraries in Wisconsin that maintain industrial and engineering standards and the only one in the State that has military specifications. These resources are vital to business

development in the City and outlying areas. Because 10% of the questions are no longer asked does not mean that 10% of staffing and materials can be reduced. It would be impossible to identify the budgetary impact of losing these services by utilizing marginal cost.

The documents used by DOA-Budget and Policy Division during negotiations for the current Resource Agreement are a much more accurate and supportable assessment of the cost of these services. We continue to support use of this costing method for future contract negotiations.

Lease Agreement

Recommendation 4

MPL should continue to survey the market rental rates for comparable office space in the Central Library area each time a new lease is negotiated.

4. MPL will continue to review market rates when the lease renewal is negotiated.

Recommendation 5

MPL should require that MCFLS provide a liability insurance certificate with a 30 day cancellation notice.

5. MPL has already spoken with MCFLS and the correction has been made.