



**Audit of
The Milwaukee Public
Library Cash Controls**

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Table of Contents

Transmittal Letter	1
I. Audit Scope and Objectives.....	2
II. Organization and Fiscal Impact	3
III. Audit Conclusions and Recommendations	4
A. Safeguarding Cash	6
Recommendation 1: Management should update and enforce their policy for the storage and access to cash in the branch libraries.....	6
Recommendation 2: Surprise cash counts should be performed at least monthly, preferably weekly.....	6
Recommendation 3: Management should establish formalized cash coverage and shortage procedures	7
Recommendation 4: Branch libraries should prepare the cash deposit in time for scheduled pick-up.....	7
B. Depositing Cash.....	8
Recommendation 5: The cash deposit from the branch libraries should be reconciled individually and deposited daily	8
C. Reconciliations.....	8
Recommendation 6: The FMIS reconciliation should be formally documented by the preparer and reviewer	9
D. MCFLS Circulation System.....	9
Recommendation 7: A weekly reconciliation should be performed between the Millennium system and the cash register for each branch library and the Central Library	9
Recommendation 8: Management should work with the management of MCFLS to develop strategies that will mitigate the identified control weaknesses	10
Departmental Response.....	12

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September 13, 2013

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the Milwaukee Public Library Cash Controls. The objectives of the audit were to: evaluate controls over all collections processes, all systems used for cash collections and reconciliation procedures, evaluate the timeliness and accuracy of deposits to the Treasurer's Office, and evaluate the timeliness and accuracy of the recording of revenue to the City's general ledger.

The Milwaukee Public Library has defined procedures for collecting payments, depositing funds, and recording revenue in the City's general ledger and in the Millennium system. The audit determined that there are opportunities for improvement in the processes and controls for cash handling. This audit makes eight recommendations to ensure that there are proper controls in place.

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

Appreciation is expressed for the cooperation extended to the auditors by the staff and management of the Milwaukee Public Library.

Sincerely,

A handwritten signature in black ink that reads "Aycha Sirvanci".

Aycha Sirvanci, CPA
Audit Manager

AS:pad



I. Audit Scope and Objectives

The audit examined procedures and controls over cash received for payment of fees and fines at the Central Library, twelve branch libraries, and the Business Office of the Milwaukee Public Library. The audit included all collections received by the Milwaukee Public Library for the period January 1, 2013 through March 31, 2013. The audit included interviews of the Circulation staff at the Central Library, six branch libraries (Villard Square, Capitol, Washington Park, East, Zablocki and Bay View), and the Business Office staff that process cash. The audit included a review of instructions and deposits created by the Circulation staff at the Central Library, twelve branch libraries, and of the Business Office staff. The audit also examined the timeliness and accuracy of the recording of revenue in the City's general ledger and of deposits to the Treasurer's Office. The Audit Division believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The Millennium system stores bibliographic information on books and other materials, records circulation transactions and keeps information on library card users. The Millennium system calculates overdue fines for library materials and fees for lost materials. Payments for library fines and fees are recorded in the Millennium system. The audit did not include an independent review of the system controls of the Millennium system since the system is owned and operated by the Milwaukee County Federated Library System (MCFLS). Transaction testing did not rely on the system controls of the Millennium System; therefore, this was not a consideration.

The scope of this audit excluded all collections for any grants and any inter-governmental and intra-governmental revenue for the period January 1, 2012 through March 31, 2013.

The objectives of the audit were to:

- Evaluate controls over all collections processes, all systems used for cash collections, and reconciliation procedures.
- Evaluate the timeliness and accuracy of deposits to the Treasurer's Office.

- Evaluate the timeliness and accuracy of the recording of revenue to the City's general ledger.

II. Organization and Fiscal Impact

The Milwaukee Public Library was founded in 1878, when the State Legislature authorized the City to establish a public library. Currently, the Milwaukee Public Library consists of the Central Library and 12 neighborhood or branch libraries. The Milwaukee Public Library is a department of the City of Milwaukee. The Library Director, who is the department head, is appointed by the Mayor and sits on the Mayor's cabinet.

"The general management, regulation and control of the library shall be vested in a Board of Trustees..." read the bylaws of the Board. There are 12 members on the Board of Trustees. Five citizen members and three alderpersons are appointed by the Mayor, and one citizen by the President of the Common Council. Also serving are the Superintendent of the Milwaukee Public Schools and the President of the Board of School Directors, or their designees, and a representative of the Milwaukee County Board of Supervisors, appointed by the County Executive. The board meets nine times per year, usually at the Central Library. Chapter 43 of the Wisconsin Statutes governs libraries.

The Milwaukee Public Library is a member of the Milwaukee County Federated Library System (MCFLS), as are the other 14 public libraries in Milwaukee County. Financed by state funds, the federated system coordinates specific joint services, such as the Millennium computer system. A seven – member board of trustees governs MCFLS. All members are nominated by the County Executive and approved by the County Board. MCFLS functions as a membership organization made up of the 15 administratively autonomous and fiscally independent public libraries in Milwaukee County. These public libraries join MCFLS voluntarily, and renew their membership periodically, by signing a membership agreement. MCFLS provides delivery of materials for the Milwaukee County residents to their local libraries and when they have finished with these

materials, return them to their home libraries. Last year, MCFLS provided delivery services carried 6 million items among public libraries within Milwaukee County. MCFLS funds a delivery contract with Action Logistics LLC.

The Milwaukee Public Library charges fines for overdue library materials and fees for lost materials. Payment of fines and fees can be paid by MasterCard, Visa, cash, or check. The Milwaukee Public library collects approximately \$350,000 in overdue charges annually and \$100,000 for lost items annually.

III. Audit Conclusions and Recommendations

For this audit, cash is defined as coin, currency, checks, and credit card transactions. Procedures for cash collection include the following:

- Accounting for cash as it is received.
- Adequate segregation of duties, which includes cash collecting, depositing, reconciling and reporting.
- Proper receipts given for all cash received.
- Approval of any voided cash receipts by a supervisor.
- Cash promptly deposited at the Treasurer's Office.
- Reconciliation of deposit forms to supporting documentation and to the accounting system.
- Proper safeguarding of cash.

Internal controls for cash collection are necessary to prevent mishandling of funds and are designed to safeguard and protect employees from inappropriate charges of mishandling funds by defining their responsibilities in the cash handling process. Appropriate controls ensure proper segregation of duties.

There are opportunities for improvement over the processes and controls for cash handling in the

Milwaukee Public Library. This audit makes eight recommendations to improve controls. Four of the recommendations relate to the safeguarding of cash, one recommendation relates to the depositing of cash, two recommendations relate to reconciliations and one recommendation relates to the MCFLS Circulation System.

Safeguarding Cash

1. Management should update and enforce their policy for the storage and access to cash in the branch libraries;
2. Surprise cash counts should be performed at least monthly, preferably weekly;
3. Management should establish formalized cash overage and shortage procedures;
4. Branch libraries should prepare the cash deposit in time for the scheduled pick-up.

Depositing Cash

5. The cash deposits from the branch libraries should be reconciled individually and deposited daily.

Reconciliations

6. The FMIS reconciliation should be formally documented by the preparer and reviewer.

MCFLS Circulation System

7. A weekly reconciliation should be performed between the Millennium system and the cash register for each branch library and the Central Library;
8. Management should work with the management of MCFLS to develop strategies that will mitigate the identified control weaknesses.

Details for each recommendation are provided in the following sections.

A. Safeguarding Cash

During the walkthroughs of cash controls at the branch libraries, the auditors witnessed the storage of the change reserve in an unlocked plastic container in an unlocked supply cabinet in the library's circulation area. The auditors observed that there is a security camera aimed at the cash register. The security cameras can be monitored at the library and from the security office at the Central Library. The video from these cameras is archived.

Recommendation 1: Management should update and enforce their policy for the storage and access to cash in the branch libraries.

Best practices dictate that cash must be stored in a locking receptacle. If a cash box or other portable cash storage device is used, it should be stored in a locked drawer or cabinet. Access to the change reserve must be limited to only those individuals responsible for cash. Management should conduct random on site cash audits annually to monitor the safeguarding of cash.

Cash funds are not periodically counted on a surprise basis by management. It is best practice in cashiering operations to count the cash in each cashier's cash drawer in order to verify the accuracy of the cash balance, at any given time, and to monitor the cashiering staff.

Recommendation 2: Surprise cash counts should be performed at least monthly, preferably weekly.

Management, independent from cash collections, should count the cash drawers of each cashier at least monthly, preferably weekly. These cash counts should be evidenced by the signature of the person performing the counts and the date the counts are performed. This would ensure the accuracy of cash drawer balance. Periodic surprise cash counts detect cash inaccuracies and serve as a preventative measure for the safeguarding of assets.

The audit determined that there are no formal procedures for resolving cash overages and shortages or a form for documenting resolution of cash overages and shortages. A cash overage or shortage situation occurs when the money to be deposited does not equal the total of the receipts. An investigation by a supervisor must occur to determine the reason for the error. Corrective actions with documentation are needed in order to reduce the occurrence of future mistakes.

Recommendation 3: Management should establish formalized cash overage and shortage procedures.

Formalized procedures for handling cash overages and shortages should be established. Best practices dictate that these procedures should include the use of a variance report in order to document the cash overage or shortage, its resolution and final decision from management and all supporting documentation. All cash overages and shortages should be documented by each library cash drawer on a daily basis and be included with the documentation of that day's activity.

Daily cash deposits from each branch library are prepared each morning, usually before each branch library opens. In some cases, the MCFLS delivery service, which delivers library materials to all member libraries, has already made the scheduled delivery/pick-up before the daily cash deposit has been prepared. Therefore, the cash deposit will be secured in the branch library lockbox until the next scheduled delivery/pick-up which would be the next day.

Recommendation 4: Branch libraries should prepare the cash deposit in time for the scheduled pick-up.

The Milwaukee Public Library is leveraging the MCFLS delivery service to pick-up the cash deposit when library materials are delivered. By having the cash deposit prepared before the scheduled delivery, the risk of loss is reduced due to the fact that there will be a significant reduction in the amount of time cash deposits are being held in the branch library lockbox.

B. Depositing Cash

All cash deposits from the branch libraries are delivered to the lockbox at the Central Library daily by the MCFLS delivery service. Separate cash deposits are prepared for the branch libraries and the Central Library. Cash deposits received from the branch libraries are not processed or deposited until all cash bags are received from all twelve branch libraries for a given day. Many branch library deposits are not ready for pick-up when the MCFLS delivery service makes their daily delivery to the branch libraries. Therefore, it may take several days for all of the cash bags to arrive at the Central Library. When all of the cash bags have been received, all daily cash reports and cash from the branch libraries are reconciled in the aggregate and the deposit slip is prepared for the Treasury. The deposit is then delivered to the Treasurer's Office by the delivery driver for the Milwaukee Public Library.

Recommendation 5: The cash deposits from the branch libraries should be reconciled individually and deposited daily.

Best practices dictate that when the cash deposit bag is received from a branch library, the cash reports should be reconciled to the cash collected from the cash deposit bag for each branch library. The library should strive to deposit as much cash to the Treasury as possible on a daily basis.

C. Reconciliations

Reconciliations are an important internal control since it serves as a detective measure to identify errors and their causes, and correct them as timely as possible. The audit noted that an accounting assistant performs a reconciliation of FMIS to the cash received spreadsheet on a monthly basis. This reconciliation is reviewed by the General Accounting Manager two to three times during the year and at year-end close. Best practices dictate that the preparer and the reviewer sign and date the reconciliation to establish accountability. Currently, the reconciliation is not signed off by the preparer or the reviewer.

Recommendation 6: The FMIS reconciliation should be formally documented by the preparer and reviewer.

After each reconciliation of FMIS to the cash received spreadsheet is performed, the preparer should sign and date it. The signature and date will indicate that the reconciliation has been completed. The General Accounting Manager should review this reconciliation monthly. After the review has been completed, the General Accounting Manager should sign and date it. Review of this reconciliation will allow for the expedited detection, and subsequent correction of recording errors. Each reconciliation should include name of the preparer, the date prepared, and the reviewer's name and date reviewed.

D. MCFLS Circulation System

The following are control weaknesses and limitations noted in the circulation system during the audit. The recommendation should be addressed through a joint effort of MCFLS employees and management of the Milwaukee Public Library.

The audit determined that a reconciliation of the Millennium system to the cash register is not being performed. Without the performance of this reconciliation, the amount of cash receipts that should have been received cannot be determined.

Recommendation 7: A weekly reconciliation should be performed between the Millennium system and the cash register for each branch library and the Central Library.

A weekly reconciliation of the Millennium system to each cash register would verify the amount of cash receipts that should have been received. This reconciliation should be performed in the Business Office with the assistance of the Library Branch Manager from each branch library and the Central Library and the process should be documented in the Policies and Procedures Manual.

The public service staff records payments received for fines and fees tracked in the Millennium system. Since there is no formal policy for waiving fines and fees for patrons of the Milwaukee Public Library, fines and fees are waived at the discretion of the public service staff. They also have the ability to back date the return date of library materials to any date to remove fines from a patron's record. Management is not aware of the amount of fines and fees waived. In 2012, overdue fines totaling \$348,874 and lost materials fees of \$79,398 were collected. The total collected for overdue fines and lost materials fees for 2012 was \$428,272. In 2012, fines and fees totaling \$179,560 were waived. For 2012, the total possible fines and fees totaled \$607,832. The percentage of waived fines was approximately 30% of total possible fines and fees. There are no controls to monitor library employees' activity in the Millennium System.

Recommendation 8: Management should work with the management of MCFLS to develop strategies that will mitigate the identified control weaknesses.

a) System Controls

- Eliminate the ability to back date the return date of library materials to any date.
- Create a reason field that would require the selection of a predefined reason code, if a fine or fee is waived;

b) Monitoring

- Develop a report of the amount of fines and fees waived:
 - By reason;
 - By time period;
 - By branch;
 - By employee.

c) Reporting

- Develop a report to aid in performing the reconciliation of the weekly reconciliation between the Millennium system and the cash register that was recommended in recommendation #7.

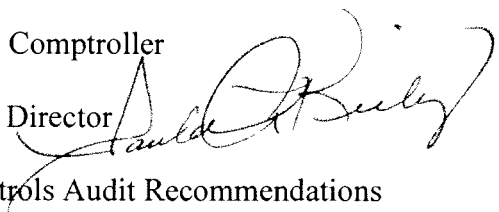
Establishing a formal policy for waiving fines and fees would aid management when monitoring employee activity. Depending on the results of creating the above mentioned reports, management should review these reports monthly or quarterly at a minimum.



MILWAUKEE
PUBLIC LIBRARY

Paula A. Kiely
Director

September 10, 2013

TO: Martin Matson, Comptroller
FROM: Paula A. Kiely, Director 
RE: 2013 Cash Controls Audit Recommendations

We have received the report summarizing the audit of cash controls for the Milwaukee Public Library performed by your office. We have reviewed the audit and have the following responses to the recommendations.

Recommendation 1: Management should update and enforce their policy for the storage and access to cash in the branch libraries.

MPL's Cash Handling, Cash Report, and Transmittal procedure states that, "Cash funds must never be left unattended unless they are locked in a secure place." During the audit one location was not following this procedure. MPL administration will work with the appropriate personnel to ensure that they follow this procedure correctly.

Recommendation 2: Surprise cash counts should be performed at least monthly, preferably weekly.

Due to the nature of our operation, we do not have separate cashier positions or separate drawers for each person. Multiple staff will service customers as needed from the same drawer. Managers oversee multiple locations. We will establish a reasonable schedule and training for conducting surprise cash counts by July 2014.

Recommendation 3: Management should establish formalized cash overage and shortage procedures.

MPL currently uses a Daily Cash Report that is prepared daily at each branch. It is signed by the person preparing it and a second person verifying it. The form lists the cash register tape's total receipts (by revenue type), the actual cash receipts, and any overage or shortage. There is no formal procedure for investigating overage/shortage but the branch staff does call for assistance from the Business Office in these situations. Given the number of staff available at the branches and in the Business Office it is not feasible to conduct investigations for small differences. Net overage/shortage for 2011 was \$.96 and (\$14.18) for 2012.

We will add a notes section on the Daily Cash Report by the end of the year for investigations of amounts over \$5.00 with the resolution, initials of person conducting it and the date and codify our procedures in writing.

Recommendation 4: Branch libraries should prepare the cash deposit in time for the scheduled pick-up.

Library hours and staff levels/schedules are dictated by the operating budget and by customer demand and convenience. Cash pick-up occurs each morning, Monday through Friday. On some days, staff does not report for work until after the pick-up occurs. We agree that it would be ideal to prepare the cash report after closing so it would be ready for next day pick-up. However, this would require an adjustment to library operations that would either reduce public hours or increase staff costs. It would also not fully address the recommendation as there is no pick-up on Saturdays (for Friday receipts) or Sunday (for Saturday receipts). The risk of loss is reduced by requiring that cash be locked at all times. In addition, the Milwaukee County Federated System has a delivery service that picks up cash bags and the Daily Cash Report from each branch location from a lock box. There is a log that the driver must sign when picking up the bag and when delivering it to the Central Library.

Recommendation 5: The cash deposits from the branch libraries should be reconciled individually and deposited daily.

Due to staffing levels and closed days at branches it may take one or two days to receive the deposits in the Business Office. With limited staff in the Business Office it is more efficient to close the day in total. This also allows us to verify that all deposits have been received.

We have implemented reconciliation by location. We will continue to secure all cash received in the safe as soon as it is received in the Business Office.

Recommendation 6: The FMIS reconciliation should be formally documented by the preparer and reviewer.

There is only one position responsible for this reconciliation. The General Accounting Manager currently performs unannounced spot checks to verify accuracy. However the staff person doing the reconciliation is now initialing and dating the report. The General Accounting Manager will initial and date when he reviews the reconciliation.

Recommendation 7: A weekly reconciliation should be performed between the Millennium system and the cash register for each branch library and the Central Library.

Millennium is a software database system owned by the Milwaukee County Federated Library System that is used by all member libraries. It is very specialized library software database for collections and patron activity - not a financial database.

The Millennium reports that the audit suggests be used for reconciliation show patron activity by location. The payment information will only rarely match what is shown on an individual locations cash register receipts. The reports also show information on other types of patron account activity, including payments residents make at other members locations. This money is sent to MCFLS for delivery to the correct library location. One branch site may receive

payments for another member library which are shown on the report but are not rung up because it is not Milwaukee revenue. Alternatively, Milwaukee may receive payments collected by another member library. This is rung up but does not show up on the report. Information on fines forgiven or other activity is also on the report. Reconciliation using this database would be extremely time consuming as further investigation would need to be done for every transaction that isn't a cash register transaction. Upgrades to the system may allow the recommended reconciliation in the future.

Recommendation 8: Management should work with the management of MCFLS to develop strategies that will mitigate the identified control weaknesses.

a) System Controls

- ***Eliminate the ability to back date the return date of library materials to any date.***

There are legitimate service reasons that back dating may be necessary, including adjustment for system failures, materials returned after libraries close, and special circulation periods for senior citizens.

- ***Create a reason field that would require the selection of a predefined reason code, if a fine or fee is waived;***

We will work with MCFLS in requesting this upgrade to the Millennium system.

b) Monitoring

- ***Develop a report of the amount of fines and fees waived:***
 - ***By reason;***
 - ***By time period;***
 - ***By branch;***
 - ***By employee.***

Our security manager currently reviews circulation records for any irregularities and investigates. We will work with MCFLS in requesting an upgrade that would assist with this process.

c) Reporting

- ***Develop a report to aid in performing the reconciliation of the weekly reconciliation between the Millennium system and the cash register that was recommended #7.***

We will work with MCFLS in requesting this upgrade to the Millennium system.

Establishing a formal policy for waiving fines and fees would aid management when monitoring employee activity. Depending on the results of creating the above mentioned reports, management should review these reports monthly or quarterly at a minimum.

We will create a written policy that reflects our current practice, including the established guidelines and training staff receives by July 1, 2014.