Fairfax County Internal Audit Office

Fairfax County Public Library
Financial Processes Audit
Final Report

August 2006

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Background

The Fairfax County Public Library (Library) is governed by the Library Board of Trustees (Library Board), an independent board whose members are generally appointed by the Fairfax County Board of Supervisors. Fairfax County (the County) appropriates general funds to support Library operations through the normal budgeting process. However, as dictated by the Code of Virginia, the Library Board has control over these funds during the year. The Library Board's Policy Manual states that it will adhere to County management policies and systems governing appropriation and expenditure of funds, use of resources, planning and capital projects.

In 1994 the Fairfax County Public Library (FCPL) Foundation was established as a private 501(c)(3) nonprofit corporation. The FCPL Foundation, a Library management initiative, was set up to supplement Library funding through gifts, donations, and grants. While we reviewed the financial procedures and controls in place over the receipt of funds at the Library and gift fund expenses, our audit did not include any substantive testwork of the FCPL Foundation as it is a private organization with no contractual obligations to the County.

Executive Summary

We found that internal controls over the processing of revenues and controls over the Library's financial system were weak in several areas. These areas included accounts receivable as well as system access capabilities and accountability. In addition, we noted concerns over the relationship of the Library with the FCPL Foundation and the lack of an approved agreement between the Board of Supervisors and the foundation documenting all support and funding provided. We also found that there were no written agreements between the County and the various Friends of the Library groups which exist in conjunction with individual Library branches. The lack of formal written agreements between the County and these separate non-profit organizations could expose the County to adverse publicity and donor complaints.

The significant findings in these areas were as follows:

Accounts Receivable

- The Library was not recording its accounts receivable balance onto the County's financial system (FAMIS) and this balance was not reflected in the County's financial statements. As of December 31, 2005, the total accounts receivable balance was $1,794,739.
- Accounts receivable aging reports were not being produced or reviewed by management and uncollectible items were not being determined and written off.
- When the Library began using the SIRSI system, all prior outstanding receivables were written-off, rather than being transferred to the new system. This write-off was done without Department of Finance (DOF) approval.

- The billing and collections plan submitted to the Department of Finance did not include several of the processes and information required by Accounting Technical Bulletin 036, Billing and Collection Procedures for Billable Revenue.

Financial System Access Controls

- All branch circulation desk staff had the capability to void non-credit card transactions without supervisory approval. The total dollar value of voided transactions for CY 2005 was $446,496.
- All branches used a shared branch user ID to account for transactions on the Library's SIRSI system, eliminating individual accountability over all transactions processed.

FCPL Foundation

As a result of the lack of a formally defined memorandum of understanding between the Board of Supervisors and the FCPL Foundation, the following was noted to be occurring without explicit board approval:

- The foundation's staff was all County employees.
- All donations received were being required to be given to the foundation.
- The foundation was automatically deducting 10% from the indirect costs of all grants, even though the County was paying for most of the foundation's operating costs and Library staff was performing significant amounts of the work for many foundation grants.

Friends of the Library

- Written agreements between the County and the Friends of the Library groups had not been obtained in accordance with Library Board policy, to specify relationships with the Library and minimum requirements.
- The Library and the Friends groups were holding surplus book sales, with part of the revenues received from the sale of County assets going to the Friends. In addition, books and other materials were being commingled at these sales events, eliminating the ability to distinguish County assets from those of the Friends.

Scope and Objectives

This audit was performed as part of our Fiscal Year 2006 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Our audit objectives were to determine the adequacy of:

- Internal controls over processing revenues for financial operations and their compliance with County policies and state regulations.
- Access controls, system interface capabilities and reporting capabilities for financial transactions processed in the SIRSI system.

- Internal controls over processing donations and grants, and their compliance with County policies and state regulations.
- Controls over the sale of surplus Library books.

The audit scope was limited to an examination of the cash handling, collection, deposit, recording, and monitoring processes relating to revenue received by the Library. We also performed some transactional testing of gift fund expenses for FY 2005. Our audit did not include any substantive testwork on the private FCPL Foundation. Instead our testwork on the foundation focused on determining if adequate controls were in place to ensure that transactions between the Library and the foundation did not increase the risk of County liability. Except for access controls and available reports for the circulation desk staff and Library Financial Management Office (FMO), we did not examine the system controls in the SIRSI system. Some of our testwork relied on those controls.

Methodology

Our audit approach included review and analysis of Library policies and procedures, managerial reports and checklists; interviews with Library staff and foundation staff; completing internal control questionnaires; detailed testing of gift fund transactions; and a review of foundation articles of incorporation, by-laws, policies and financial reports.

Our audit did not examine the system controls over purchasing, financial, and payroll applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of system transaction data may have been erroneous.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive and the Board of Supervisors, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Posting Accounts Receivable to FAMIS

Accounts receivable (A/R) was being recorded in the Library's internal system (SIRSI) but not in the County's financial system (FAMIS). Per SIRSI reports the accounts receivable balance as of December 31, 2005, was $1,794,739. This is not an acceptable accounting practice and is not in compliance with County policy ATB036 Billing and Collection Procedures for Billable Revenue and ATB008 Invoicing. The result of this omission is an understatement of receivables in the County financial statements.

Recommendation: The Library should work with the Financial Operations Division in DOF to determine the best procedure to ensure that accounts receivable balances are posted to the County's financial system (FAMIS), as required by policy.

Management Response: The Library met with the Department of Finance (DOF) on June 16, 2006, for the first of many meetings to discuss the best procedure to record the SIRSI accounts receivable balances in FAMIS. The Library will be forwarding sample reports from Director's Station to DOF. The DOF requirement is to have the A/R recorded annually to be included in the financial statements. The anticipated completion date is June 30, 2007.

2. Accounts Receivable Oversight

There were no accounts receivable summary reports being produced or reviewed by management (i.e., Aged Accounts Receivables, Receivables by Branch, A/R Subsidiary Ledgers, etc.). Such reports serve as an important management control function to determine the true value of receivables and the effectiveness of collection activities. Accounting Technical Bulletin 036 requires that outstanding receivables reports be prepared and made available to the Department of Finance on at least a quarterly basis. In addition, collections goals had not been established to measure the adequacy of the billing and collections process for accounts handled internally and those sent to a collection agency.

Recommendation: We recommend that the Library develop accounts receivable reports to allow management to track and monitor the progress of delinquency collections to ensure that the County is effectively receiving amounts due. These reports should be independently reviewed on a regular basis and submitted to the Department of Finance, as required.

Management Response: The Library has the capability to run some accounts receivable reports using Director's Station to pull the information from SIRSI. Additional training for selected circulation and financial staff will be required to run additional reports and to track and monitor the progress of our collections. The anticipated completion date is December 30, 2006.

3. Collection Procedures

The Library's billing and collection plan submitted to DOF was missing descriptions of the billing process, the information system used to record accounts receivable, required A/R subsidiary ledger reports, customer data collected, the collection and delinquent account process with stated collection goals and the evaluation process.

These are all requirements of ATB036 Billing and Collection Procedures for Billable Revenue. Weak controls over processing accounts receivable may decrease revenue by increasing the risk for fraud or failure to maximize collections on receivables.

Recommendation: The Library should set up comprehensive procedures for accounts receivable that address the areas noted above and comply with ATB036 Billing and Collection Procedures for Billable Revenue. Once A/R is being posted to FAMIS, as recommended in item #1 above, written procedures should be developed to reconcile the FAMIS A/R balance to SIRSI.

Management Response: The Library will review the billing and collection plan submitted to DOF and update the plan to include descriptions of the billing process, the system used to record accounts receivable, A/R reports required, customer data, and the actual collection and delinquent account process. The anticipated completion date is December 30, 2006.

4. Accounts Receivable Write-offs

The following items were noted during our review of the process and procedures for writing off uncollectible amounts:

a. The Library wrote off all accounts receivable prior to 2003 during their transition to the SIRSI system. This was done without authorization from DOF. No documentation of this transaction was kept, thus, the total amount of the write-off is not known.

b. The Library did not have a write-off policy that had been approved by the Department of Finance.

c. Past due accounts were being kept on the SIRSI system indefinitely, with those accounts owing more than $25 sent to a collection agency after 71 days. The collectibility of these accounts becomes questionable over time. These amounts may misstate Library accounts receivable by staying on the system indefinitely and not being written-off when deemed uncollectible.

Per County policy DFN 036-1, Write-Off of Uncollectible Non-Tax Accounts Receivable, all agencies processing accounts receivable must have a write-off policy. This policy requires that all write-offs be approved by DOF, with department heads responsible for developing acceptable methodologies to determine uncollectible receivables and writing them off County books.

Failure to comply with County policy regarding writing off accounts increases the risk of fraud, failure to maximize revenue collections and material misstatement of financial statements.

Recommendation: The Library should develop and implement a write-off policy that is in compliance with County policy. This policy should include procedures to address actions to take on accounts as they are determined to be uncollectible, so that they do not stay on the system indefinitely and misstate receivable balances.

Management Response: The Library will develop and implement a write-off policy that is in compliance with County policy DFN 036-1, Write-Off of Uncollectible Non-Tax Accounts Receivable. The policy will include procedures to take on accounts that are determined uncollectible and should not stay on the system, SIRSI or FAMIS, for more than two years. The anticipated completion date is December 30, 2006.

5. SIRSI Reconciliation to Cash Registers

Cash register close-out reports at the Library branches were not being compared to updates posted to customer accounts on SIRSI. Failure to compare customer payments posted on a system to cash receipts increases the risk of loss or theft through erroneously or fraudulently posted payments to customer accounts.

Recommendation: Branches should match cash register close-out reports to payments posted to the SIRSI system on a daily basis. Significant differences should be investigated. Additionally, the Library should investigate the possibility of integrating/interfacing cash register and credit card processing with SIRSI for more efficient daily branch close-out procedures through automated reconciliations.

Management Response: The Library already produces a daily report by branch that could be used to match to the cash register tapes, although it is not complete because each workstation needs to be named and linked to a specific branch. Initially, the Library will name all the workstations and test the daily report using one branch as a pilot to see how this additional reconciliation will impact the staff at the branch, as well as in the Financial Management Office. The pilot is anticipated to be completed on December 30, 2006. Once the pilot is complete, the program will be rolled out to the other branches.

6. System Access Controls Over Financial Transactions

Our review of system access controls revealed that:

a. All staff with circulation desk responsibilities had the capability to void, waive or forgive transactions in SIRSI without supervisory approval, with the exception of credit card transactions. The lack of independent supervisory approval for waived fees or voided transactions decreases accountability for these transactions and increases the risk that legitimate charges will be dropped.

b. Each branch was using one shared branch user ID in SIRSI for all circulation desk staff. In the morning, the supervisor on duty would log onto SIRSI using the branch ID. All branch circulation IDs had the same user profile which allowed the user to check in/out books, pay fees, forgive charges and void transactions among other things. Per Fairfax County Information Technology Security Policy 70-05.01, users shall not share Fairfax County accounts. Shared user IDs decrease accountability for transactions posted on the system, increasing the risk of fraud or error in posting charges or payments and adversely affecting revenue.

Recommendation: SIRSI system supervisory approval should be required to process all voided, waived or forgiven fees.

For maximum control, each staff member at all the branches with circulation desk responsibilities should have their own SIRSI user ID and password. Per our discussions with management, this may not be administratively feasible. If individual user IDs is not implemented, cash register close-out reports should be reconciled with SIRSI payments posted on a daily basis and waived/voided fee transactions should be electronically approved by a supervisor as a compensating control.

Management Response: Using the current SIRSI system, it is not possible to have system supervisory approval. The Library will develop a policy for waived/voided fees to be used by all authorized staff and implement a training program to explain the policy and requirement of a signed authorization form (similar to the procurement card program). The completed authorization forms will be reconciled to the information input into SIRSI as part of the SIRSI reconciliation noted in item #5. All circulation managers will be trained first and then they will train the other authorized staff at their respective branches. The anticipated completion date is December 30, 2006.

7. FCPL Foundation

The Library was providing a significant amount of services to the private FCPL Foundation that had not been formally approved by the Board of Supervisors and which could potentially cause adverse affects to the County. There was no memorandum of understanding in effect which would document agreed upon services and funding provided between the foundation and the County, nor other facets of the relationship. We noted that:

- All foundation staff were County employees
- The operations were housed in County offices rent free
- The Library director was serving as an ex-officio member of the foundation board with the same rights and privileges as a regular member
- The foundation was processing all Library donations
- The foundation was fundraising on behalf of the Library
- The Library grants coordinator was applying for grants on behalf of the foundation
- The foundation was periodically deducting 8 to 10% of Library donations and grants for administrative fees and indirect costs even though the County was paying for their salaries and rent

Per discussions with the County Attorney's Office, the Library's relationship with the foundation should be at arms length, clearly establishing that the foundation is not being run by the Library. Failure to establish a Board of Supervisors' approved written memorandum of understanding between the Library and the FCPL Foundation could cause the Library Board and the Library to overstep their authority to use a foundation, weaken County control and accountability over public funds, and potentially create an expectation that the County will honor agreements over which it does not have control.

Recommendation: The Library should develop a memorandum of understanding defining its relationship with the foundation and the scope of services provided to the foundation. It should be approved by the Library Board and the Board of Supervisors. Additionally, it should include a right to audit clause as well as a requirement that documents be kept in a manner that facilitates audits of financial records. This agreement should be reviewed by the County Attorney's Office to ensure that it meets the arms length relationship standard and properly addresses any other liability issues that may arise. The Library should consult with the County Attorney's Office to determine the legality of the practice of using County employees to staff the foundation. Any such practice should be a matter of policy to be decided upon by the Board of Supervisors with proper consideration given to maintaining an arms length status.

Management Response: The Library is currently working on a memorandum of understanding, defining the relationship with the Foundation, that will be reviewed by the County Attorney's Office for it's arm length relationship, the use of County employees, and any liability issues. The memorandum of understanding will then be approved by the Library Board of Trustees, the Board of Supervisors, and the Foundation Board. The anticipated completion date is June 30, 2007.

8. Procedures for Handling Gifts

Library policy states that the FCPL Foundation is the processing agent for all gifts to the Library, all monetary gifts should be given to the foundation, and all checks should be made payable to the foundation. Per discussion with the Library's Financial Management Office, donations >$5,000 received by the Library were not being reported to the County Executive and DMB as required by DFN #004-01.

Donations to "the Library" as opposed to the foundation are public funds or property. The Library has no authority to require that all Library donations must go to a private foundation. The Library's policy of directing all donations to a private foundation weakens County control over public funds, can lead to donor discomfort regarding the use and accountability of donations and weakens the County Attorney's Office's recommended arms length relationship between the Library and foundation, opening the County up to risk of adverse situations. It also increases the processing time to meet donor requirements for funds increasing the possibility of decreased donations due to donor frustration and negative publicity for the Library.

Recommendation: Donors should be given a clear choice between donating to a private foundation or directly to the Library. For maximum accountability and efficiency, unless expressly designated to benefit the Library Foundation, all restricted donations, monetary and in-kind, should be given directly to the Library and processed through the County. The Library should comply with DFN #004-01 for all donations received, including donations received back from the foundation. It is recommended a master log be kept of all gift forms completed for donations for better accountability. The current Library policy should be updated accordingly.

Management Response: The new Library policy giving donors a clear choice between donating unrestricted gifts to the Foundation or the Library, and restricted gifts directly to the Library, will be presented to the Library Board of Trustees for approval. The Library will then update the gift fund form to include these changes and develop a master log for all gift forms. Donations >$5,000 have been reported to the County Executive and DMB since the beginning of FY 2006 and will continue. The anticipated completion date is December 30, 2006.

9. Friends of the Library Agreements

We were unable to locate any evidence that written agreements had been obtained for any of the twenty-three private Friends of the Library groups, which would specify their relationship with the Library and the minimum requirements. Per Library Board policies, having such written agreements is a requirement. Failure to have such agreements in place may increase the risk that these groups may be under the mistaken belief that they are the agents of the Library and that the County would therefore, be responsible for their actions.

Recommendation: There should be approved agreements in place between each Friends' group and the Library Board. These agreements should be reviewed by the County Attorney's Office to ensure propriety. The Library should consider working with the County Attorneys Office to develop a template which covers minimum County requirements. Groups could then add additional requirements as needed and acceptable, to complete the agreement. The template should include a requirement for financial reporting for Friends of the Library groups that solicit on behalf of the Library and obtain funds from book sales.

Management Response: The Library is currently working on a Friends Manual that includes an agreement (template) to be used between each Friends Group and the Library Board of Trustees. The agreement will be forwarded to the County Attorney's Office, before it is distributed to the Friends. The anticipated completion date is June 30, 2007.

10. Controls Over Sales from Surplus Library Books

Surplus Library books were being sold through on-going book sales conducted by the Library and book sales events conducted by the Friends of the Library (Friends). Revenues collected from on-going book sales were split with the Friends, while all revenues from book sales events were kept by the Friends. For both types of book sales, the surplus Library books were being commingled with books donated by Friends groups, making it difficult to separately account for sales of each type. Additionally, proceeds received by the Library from the sale of surplus books were being placed in an unrestricted gift fund where they were not required to be spent on replenishing the Library collection.

There was no formal written Library Board policy regarding the sales of surplus Library books, the donation of books to the Friends, or the splitting of revenues received with the Friends. The procedures that were taking place were not in compliance with the Fairfax County Purchasing Resolution, Article 5, Section 3, which requires Department of Purchasing and Supply Management (DPSM) or Board of Supervisor approval for donation of surplus property.

Recommendation: The Library should develop written policies and procedures regarding the distribution and sale of surplus books that are in compliance with the Fairfax County Purchasing Resolution, Article 5, Section 3. Any procedures that differ from County policy should be based on specific authority granted by Virginia Code and should be sanctioned by the Board of Supervisors and the Library Board. Procedures should be thoroughly documented, including required controls to ensure the accountability over book sales revenues as well as the accounting treatment of revenues received. The Library may consider seeking approval to set up and place all surplus revenues into a separate restricted gift fund. Such a fund would allow for transparent accounting trails to show that surplus revenues were being spent to replenish book collections.

Note: The Virginia Code 15.2-953-B was recently amended to allow discarded materials from library collections to be donated to non-profit organizations including Friends of the Library, as follows, “Public library materials that are discarded from their collections may be given to nonprofit organizations that support library functions, including, but not limited to, friends of the library, library advisory boards, library foundations, library trusts and library boards of trustees.”

Management Response: In accordance with the Code of Virginia, 15.2-953-B, the Library Board will develop a written policy to endorse the donation of surplus library materials to nonprofit library Friends groups and formalize the current procedure that splits the revenue from ongoing Friends’ book sales. One half of the revenue from ongoing book sales will go to the Friends, the remainder to the Library System gift fund. The revenue from the sale of surplus materials will be used for a variety of expenditures including public programming, staff training and other activities that support the mission of the Fairfax County Public Library, use of the Library and efforts to encourage reading. The anticipated completion date is December 30, 2006.