



*METROPOLITAN GOVERNMENT OF NASHVILLE AND
DAVIDSON COUNTY*

INTERNAL AUDIT SECTION

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Follow-Up Audit of the Nashville Public Library's Cash Receipting Process

Date Issued: June 1, 2007

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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

INTERNAL AUDIT SECTION

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**BILL PURCELL
MAYOR**



**DEPARTMENT OF FINANCE
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**METROPOLITAN
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June 1, 2007

Ms. Donna Nicely
615 Church Street
Nashville, Tennessee 37219

Report of Internal Audit Section

Dear Ms. Nicely:

We have completed a follow-up audit related to the internal control environment of the revenue receipting process utilized by the Nashville Public Library.

Follow-up audit procedures are significantly less than the scope of a performance audit. While some procedures may be similar, performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits encompass a wide variety of objectives including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, compliance with legal or other requirements, and objectives related to providing prospective analyses, guidance, or summary information.

Internal control objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

In planning a follow-up engagement, auditors should obtain a sufficient understanding of internal control as it relates to the subject matter to which the auditors are examining. The subject matter or assertion may be of financial or non-financial nature, and internal control material to the subject matter the auditor is testing may relate to:

- a. effectiveness and efficiency of operations, including the use of an entity's resources;
- b. reliability of financial reporting, including reports on budget execution and other reports for internal and external use;
- c. compliance with applicable laws and regulations, provisions of contract, or general agreements; and
- d. safeguarding assets.

Subject Matter

We were contacted by a Nashville Public Library employee in 2004 who claimed that the cash receipts at one of the branches were not being deposited on a regular basis. Due to the Nashville Public Library central managements' concerns, we completed a limited review of the Nashville Public Library's cash receipting process in 2004 and identified approximately \$920.00 in cash receipts that were not deposited. Due to the previous audit findings, we are performing follow-up procedures to examine the current internal control environment utilized by the Nashville Public Library, specifically the branch where the incident occurred, to provide reasonable assurance that the events uncovered in the previous audit will be prevented from re-occurring.

Objectives, Scope, and Methodology

The primary objectives of this follow-up audit included the following:

- An examination of the business processes employed at the Nashville Public Library for receiving, maintaining, reconciling, depositing, reporting revenue received, and following-up on previous audit findings and recommendations;
- Identification of weaknesses and strengths of the internal control environment and their impact on operations;
- Identification of the actual financial and/or operational impact on operations from weaknesses and strengths identified; and
- Provide guidance and deliver recommendations to management that supply a direction for improvement in the internal control structure, if necessary.

Our work focused primarily on the period January 1, 2006 through April 30, 2007, financial balances, transactions, and processes in place during the time of the engagement. Certain analyses required the consideration of financial results, performance, and operations outside that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Nashville Public Library. Management, administrative and operational personnel were interviewed, and various aspects of the Nashville Public Library were directly observed. We performed our procedures in accordance with *Generally Accepted Government Auditing Standards*.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. Additionally, we did not have any reservations about the engagement, the subject matter, or the assertion related thereto. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results.

Auditors' Responsibility

In order to maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity, professionalism, and objectivity when dealing with audited entities and users of the auditors' reports. Additionally, auditors should be honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality laws, rules, or policies.

Service and the public trust should not be subordinated to personal gain and advantage. Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Independence precludes relationships that may in fact or appearance impair auditors' objectivity in performing the audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors' responsibility to the public.

In applying *Generally Accepted Government Auditing Standards*, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

Management's Role

Department process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, process owners and managers are responsible for:

- Applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations, including identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed;
- Providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs; and
- Addressing the findings and recommendations of the auditor's work, and establish and maintain a process to track the status of such findings and recommendations.

Budgeted Financial Information

The Nashville Public Library had a total of 362 budgeted positions for fiscal year 2007. The fiscal year 2007 budget can be summarized below:

Revenues and Transfers:

Charges, Commissions, and Fees	\$ 647,800
Other Governments and Agencies	269,200
Other Program Revenue	1,029,100
Non-Program Revenue	<u>0</u>

Total Revenues and Transfers	<u>\$ 1,946,100</u>
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Expenditures and Transfers:

GSD General Fund	\$ 21,248,400
Special Purpose Fund	<u>1,305,100</u>

Total Expenditures and Transfers	<u>\$ 22,553,500</u>
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Audit Findings and Recommendations

Through the course of our examination, we reviewed the financial transactions and internal controls within the revenue receipting process without exception. We determined that the Nashville Public Library has implemented proper internal controls that will provide reasonable assurance against the misappropriation of assets.

Follow-Up on Previous Audit Findings

The following significant findings were noted in the previous performance audit. Along with the previous significant findings, we have included the procedures designed to test compliance with the current cash handling procedures:

<i>Previous Audit Finding</i>	<i>Audit Procedures Performed and Summation</i>
<p><i>Deposits are not being verified or tracked by the central office, branch managers, or someone independent of the deposit function.</i></p>	<p>It was determined in the previous audit that deposits were not tracked or verified at the central office, or by the branch manager at each branch location. Through our current observations and procedures, it was noted that each branch manager must submit a daily deposit bag to the central office with the required support each day regardless if any money was received. The central office will then prepare a consolidated cash listing of each branch and their deposit amount. By completing this step, the central office can determine if a branch has not submitted a daily deposit. It was also</p>

	<p>noted that one person at the central office counts and verifies each branch deposit against the required support, and a different independent person prepares and approves the consolidated bank deposit. By having someone independent of the deposit function approving prepared deposits, the manipulation and possible misappropriation of assets can be prevented.</p>
<p><i>Deposits are not properly safeguarded, and the keys used for the deposit bags are stored in unrestricted areas.</i></p>	<p>It was determined in the previous audit that deposits were not properly safeguarded in a secure location which can lead to the misappropriation of assets. Through current observations and procedures, it was noted that each branch location is now required and properly equipped to safeguard deposits before they are taken to the central office. It was also noted that only the authorized personnel have access to the keys used for the deposit bags.</p>
<p><i>Written policies and procedures provided by the central office are not current.</i></p>	<p>In the previous audit it was noted that there were no current policies and procedures in place. Through our current observations and procedures, it was noted that current policies and procedures now exist.</p>
<p><i>The library does not maintain evidence that the staff has been provided training related to revenue collection.</i></p>	<p>In the previous audit it was noted that there was no record kept on file to show that employees were properly trained in revenue collecting procedures. Through our current observations and procedures, it was noted that each employee must complete an extensive revenue collection training program and pass an exam at the end of their training program before performing job duties related to revenue collection.</p>
<p><i>Manual ledgers are used to document only some of the cash receipts received at the library.</i></p>	<p>In the previous audit it was noted that manual ledgers were being used to record only certain types of cash receipts collected. By not recording all cash receipts received on a daily basis, the misappropriations of assets cannot be effectively detected. Through our current observations and procedures, it was noted that the manual ledgers are now used to record all cash receipts received on a daily basis.</p>

<p><i>The branch manager did not take corrective action when they were informed about the cash receipts that were not deposited.</i></p>	<p>In the previous audit it was noted that the branch manager was notified about the cash receipts that were not deposited and failed to take corrective action. Through our current observations and procedures, it was noted the current branch manager is now ultimately responsible for submitting the daily deposit to the central office. Someone independent of the deposit function is collecting the daily deposit from each branch location and then delivering all deposits to the central office. If the person delivering the deposit does not pick one up from a branch, they must immediately contact the central office. By having someone independent of the deposit function collect each branch deposit and communicate to the central office if one is not available, the possibility for manipulation and or the misappropriation of assets can be prevented.</p>
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We appreciate the cooperation and help provided by all of the Nashville Public Library staff.

This report is intended for the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Signature on File

Don Dodson
Internal Audit Director

Copy: Mayor Bill Purcell
David L. Manning, Director of Finance
Chase Adams, Administrative Services Manager
Suzan Drye, Fiscal Manager
Library Board
Eugene Nolan, Associate Director of Finance
Talia Lomax-O'dneal, Deputy Finance Director
Sue Cain, Director of Law
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Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NASHVILLE PUBLIC LIBRARY
815 CHURCH STREET
NASHVILLE, TN 37219

May 30, 2007

Mr. Don Dodson
Director of Internal Audit
Metro Department of Finance
222 Third Avenue North, Suite 401
Nashville, TN 37201

Dear Mr. Dodson:

This is to acknowledge that we have received the Audit Report of the Library Department's cash receipting process. We understand the importance of following sound financial procedures for our cash receipting process and we are pleased with the latest findings acknowledging our compliance with the procedures and with previous audit recommendations. We appreciate the professionalism demonstrated by your staff during the engagement and your continued interest in the Public Library.

Sincerely,

Donna D. Nicely
Library Director

pc: Jane Terry, Metro Internal Audit
Tony Neumaier, Metro Internal Audit