METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

OFFICE OF INTERNAL AUDIT

FINAL REPORT

Audit of the Nashville Public Library

Date Issued: March 28, 2013

*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
that reports directly to the Metropolitan Nashville Audit Committee*

EXECUTIVE SUMMARY
March 28, 2013

Results in Brief	Fiscal Data and Recommendations
An audit of the Nashville Public Library was performed. Key objectives and conclusions were as follows:	

Results in Brief

An audit of the Nashville Public Library was performed. Key objectives and conclusions were as follows:

- *Were revenue receipts received at the Nashville Public Library real, complete, and accurately recorded in bank and accounting records?*

  Yes. No material discrepancies were found.

- *Were payroll expenditures for services performed or benefits earned at the approved rate of compensation?*

  Yes. No material discrepancies were found.

- *Were expenditures aligned with the service delivery objectives of the Nashville Public Library?*

  Yes. No material discrepancies were found.

- *Were library collections properly secured?*

  Yes. No material discrepancies were found.

- *How do per capita measures and statistical information such as circulation, patron visits, types of expenditures, sources of revenue flows compare to public libraries in similar jurisdictions?*

  Comparable governmental jurisdictions spend more money for library services than the Nashville Public Library, over $7 million or 30 percent more. However, Nashville Public Library program attendance and e-circulations exceeded this group. Printed material circulation, CD/DVD circulation, and reference assistance were behind peer jurisdictions by approximately one half.[1]

Fiscal Data and Recommendations

FY 2012	Budget	Actual
Operating Expense	$19,901,100	$20,109,676
Four Percent Funds	4,001,080	1,941,303
FY 2011		
Operating Expense	$19,695,000	$19,406,122
Four Percent Funds	4,210,403	2,209,323

Recommendations

- Leverage the Millennium system to develop a methodology for tracking, monitoring, and quantifying items missing from the library's collection.

- Develop a policy defining at what specific length of time an item should be missing before it is classified as lost/stolen.

- Develop a report to be distributed to appropriate levels of management detailing the current number of missing items and the increase or decrease over time.

- Segregate cash receipt functions within the conference room section.

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[1] *National Public Library Association 2011 Statistical Report*

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INTRODUCTION

Audit Initiation   The audit of the Nashville Public Library was conducted as part of the approved 2012 Audit Work Plan. The audit was initiated based on the number of years elapsed since the last audit was conducted in 2007.

Background   The mission of the Nashville Public Library is to "provide information, programs, and reference assistance to individuals, families, and the larger community so they can enjoy the benefits of reading and life-long learning".

The library carries out this mission and enhances the quality of life for its citizenry through 20 library branches, the Main Library and the Archives. In fiscal years 2011 and 2012, over 8.5 million library materials were checked out and over 7.6 million patron visits were estimated for the Nashville Public Library system. The library also served patrons with reference material, online access, access to numerous databases, computer training classes and other programs.

Organizational Structure   The Nashville Public Library has seven distinct lines of business which are as follows:

Reference Information: The purpose of the Reference Information function is to provide reference assistance and online information products.

Library Materials: Provides circulating, research and reader's advisory products to individuals and the larger community.

Equal Access: This program provides materials, information and accessibility products to people involved with or experiencing problems with or loss of vision or hearing or having physical disabilities.

Education and Outreach: Provides educational opportunities, cultural events and public information products to the Nashville Community.

Town Square: Provides community gathering and technical assistance products to individuals and groups so that they can have a public place to come together.

Library Customer Technical Support: This program provides technical support products to library customers so they can enjoy reliable automated library service.

Administration: Provides administrative services products to support library operations so it can deliver results for customers.

Information Systems

Significant information systems used at the Nashville Public Library are Millennium, EnterpriseOne, and Collection Analytical Software.

- *Millennium* is an integrated library software system utilized by the Nashville Public Library as well as many other jurisdictions to record patron, collection, and circulation information. The system is also used to record all cash receipts.

- *EnterpriseOne* is used to account for all expenditures, revenue deposits, payroll and time keeping for the Nashville Public Library.

- *Collection Analytical Software* is used by the Nashville Public Library to help determine the needs of the library with respect to the various collections of printed material, e-books, music, etc.

Financial Information

The Nashville Public Library receives the majority of their funding from Metro Nashville's general fund. In addition, the agencies receive some Metro Nashville four percent reserve funding, various grants, and support from the Nashville Public Library Foundation, a local nonprofit entity.

Budget Information
A review of the 2013 Citizens Guide to the Metro Budget was conducted and ascertained the following regarding the libraries business lines.

Exhibit A – Budgeted Dollars per Line of Business

Budget	2013	2012	2011
Library Materials	$ 8,980,413	$ 8,421,612	$ 7,660,511
Administration	8,113,013	7,481,212	7,885,811
Reference Information	2,893,313	2,904,512	2,887,311
Education and Outreach	1,983,213	1,984,212	1,960,311
Equal Access	375,300	513,300	524,200
Library Customer Technical Support	260,700	260,700	196,400
Town Square	242,100	216,376	239,400
Total	$22,848,052	$21,781,924	$21,353,944

Source: Metro Nashville's EnterpriseOne Financial System

Payroll Expenditures
The library had 325 budgeted positions in fiscal year 2011 and 331 in fiscal year 2012. Per EnterpriseOne, the library expended $23,703,026 in payroll expenses from July 1, 2010, to September 30, 2012.

**Exhibit B – Budgeted Full Time Equivalent per Line of Business
July 1, 2010 to September 30, 2012**

Business Line	2013	2012	2011
Library Materials	161	160	151
Reference Information	64	64	64
Administration	48	48	48
Education and Outreach	16	16	16
Library Customer Technical Support	6	6	5
Equal Access	5	6	6
Town Square	2	2	2
Total	302	302	292

Source: 2013 Citizens Guide to the Metro Budget

Expenditures

Expenditures for materials and services totaled $18,645,107 between July 1, 2010, and September 30, 2012. The top ten vendors, representing 71 percent of all expenditures for this period are presented below.

Exhibit C – Top Ten Vendors of the Nashville Public Library July 1, 2010 to September 30, 2012

Vendor	Amount	Purpose
American Constructors Inc.	$3,847,024	
Nashville Electric Services	2,425,961	Utilities
Ingram Library Services	1,689,948	
AT&T	1,186,714	
Lyrasis	992,520	
Midwest Tape	858,981	
District Energy Services	678,162	Utilities
Baker & Taylor Inc	621,991	
Overdrive Inc.	543,631	
Randstad	460,336	Temporary Labor

Source: Metro Nashville's EnterpriseOne Financial System

<u>Internal Control Assessment</u>

Key library staff were interviewed and relevant supporting documentation was reviewed for the revenue, payroll, procurement, and acquisitions and collection cycles. The following internal control strengths were noted:

1) *Segregation of Duties*: The Nashville Public Library has instituted a number of policies and procedures that ensure incompatible functions are properly segregated. Cash receipts, deposits, payroll, procurement, and receiving all have adequately segregated functions.

2) *Well written and detailed operating procedures over procurement and cash collection functions.*

3) *Reconciliations*: For daily cash receipts, a report listing all payments received during a cashier's shift is generated at the end of each day. The dollar amount counted as collected is compared to the report. The funds and the report are then submitted to the Administration group where it is recounted and entered on a spreadsheet. The total amount is reconciled by management to a separate report detailing amounts expected to be collected per the Millennium system.

4) *Management Review*: The Nashville Public Library has instituted procedures that require management review of revenue, payroll, procurement, and acquisition and collection transactions to ensure compliance with operating procedures.

5) *Security of Assets*: Monies collected are placed in a lock box bag that only the branch offices and administration have access to. Lock box bags are placed in designated locked boxes for transfer. Transfer personnel do not have access to the lock box bag keys.

OBJECTIVES AND CONCLUSIONS

1. Were revenue receipts received at the Nashville Public Library real, complete, and accurately recorded in bank and accounting records?

Yes. A random sample of 119 daily deposits from July 1, 2010, to September 30, 2012, was reviewed. Supporting documentation was obtained for each sample item. Each sample was tested to ascertain the following:

- Did the amount on the deposit slip agreed to the amount on the report issued by the Information Technology report and the amount recorded as being received in the Administration Office?

- Was the deposit made within one business day?

- Was there was evidence of management review?

- Were the amounts properly recorded in the EnterpriseOne system within two business days?

No exceptions were noted.

Additionally, a listing of all out of county patrons was obtained and a random sample of 58 persons from this listing was taken for review. Each sample was tested to ascertain if a fee was collected for the patron or, if such a fee was not collected, was the waiving of the fee appropriate (Metro Nashville employees, etc.). No exceptions were noted.

2. *Were payroll expenditures for services performed or benefits earned at the approved rate of compensation?*

Yes. A random sample of 119 timesheets from July 1, 2010, to September 30, 2012, was reviewed. Supporting documentation was obtained for each sample item and reviewed to ascertain the following:

- Did hours on the timesheet conform to the hours paid per EnterpriseOne?

- Was the timesheet signed by both the employee and the supervisor?

- Were the hours calculated on the timesheet mathematically correct?

- If applicable, was leave time accurately entered into the EnterpriseOne system based on supporting documentation?

- If applicable, were amounts for "non-typical" payroll accounts (bonus, overtime, etc.) calculated and recorded correctly?

No material exceptions were noted. There were five out of 119 (4 percent) timesheets that were not signed by both the supervisor and the employee.

3. *Were expenditures aligned with the service delivery objectives of the Nashville Public Library and allowable in accordance with the Internal Revenue Service Publication 535 - Business Expense and/or Office of Management and Budget Circular A-87?*

   Yes. A random sample was selected for purchase vouchers, procurement cards, and acquisition and collection purchases made by the Nashville Public Library. Each of these procurement methods had a sample size of 119, with a total of 357 procurement related transactions being reviewed. Supporting documentation was obtained and reviewed to ascertain the following:

   - Was the expenditure supported by a receipt or invoice?

   - Was the supporting documentation mathematically correct?

   - Was the purchase prudent and related to Metro Nashville business?

   - Was the expenditure properly approved?

   - If applicable, were amounts charged correct and in accordance with agreements made with various vendors?

   No material exceptions were noted.

4. *How do per capita measures and statistical information such as circulation, patron visits, types of expenditures and revenue compare to public libraries in similar jurisdictions?*

   Comparable governmental jurisdictions spend more money for library services than the Nashville Public Library, over $7 million or 30 percent more. However, Nashville Public Library program attendance and e-circulations exceeded this group. Printed material circulation, CD/DVD circulation, and reference assistance were behind peer jurisdictions by approximately one half. [2]

   The National Library Association produces an annual report which provides a large range of information from participating jurisdictions. Information includes sources of revenue, nature and types of expenditures, circulation information, output measures, staffing. The Hennen American Public Library Rankings, commonly referred to as HAPLR, were used to identify jurisdictions serving comparable populations of 500,000 to 999,000 citizens. All of the libraries in this group are shown below and labeled as the "Comparable Class." Additionally, seven particular jurisdictions were selected from this

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[2] *National Public Library Association 2011 Statistical Report*

group representing a "best in class" group and have been labeled the "Benchmark Group."

General information about each of the seven Benchmark Group members is listed below:

Exhibit D – Benchmark Group General Information

Jurisdiction	State	Population Served	Square Miles Served	Cumulative Square Feet of Libraries
Denver	CO	604,414	155	775,739
Cuyahoga County	OR	616,527	458	524,410
Boston	MA	617,594	89	1,000,000
Metro Nashville/Davidson County	**TN**	**626,681**	**502**	**516,357**
Multnomah County	OR	730,140	465	271,762
Baltimore	MD	785,618	682	321,189
Columbus	OH	846,761	343	553,635
Charlotte Mecklenburg	NC	938,020	1,466	709,545
Average Benchmark Group (Excludes Nashville)		734,153	523	593,754
Average Comparable Class		719,569	926	440,118

Source: National Public Library Association 2011 Statistical Report

Funding source amounts are shown below in order of total funding dollars followed by a breakdown of funding source percentages.

Exhibit E – Sources of Funding

Jurisdiction	Local	State	Federal	Other	Total
Metro Nashville/Davidson County	**$21,811,304**	**$267,000**	**$15,489**	**$1,287,891**	**$23,381,684**
Charlotte Mecklenburg	24,711,120	391,145	15,272	3,418,772	28,536,309
Denver	30,959,300	22,539	878,729	1,078,255	32,938,823
Boston	30,400,000	2,750,000	1,650,000	5,500,000	40,300,000
Baltimore	33,615,882	7,244,476	328,499	2,803,446	43,992,303
Multnomah County	53,577,162	77,768	420,194	3,466,140	57,541,264
Cuyahoga County	46,124,004	19,548,482	0	7,178,468	72,850,954
Columbus	55,911,594	19,954,000	0	3,212,491	79,078,085
Average Benchmark Group (Excludes Nashville)	39,328,437	7,141,201	470,385	3,808,225	50,748,248
Average Comparable Class	25,898,366	2,809,010	184,446	1,669,981	30,419,232

Source: National Public Library Association 2011 Statistical Report

Exhibit F – Expenditures for Materials and Payroll

Jurisdiction	Print Media	Electronic Material	CD/DVD	Other Materials	Total Materials	Payroll
Cuyahoga County	$1,200,000	$205,000	$220,000	$40,853	$1,665,853	$17,780,646
Metro Nashville / Davidson County	**1,953,427**	**512,380**	**323,683**	**0**	**2,789,490**	**13,240,328**
Baltimore	3,161,742	780,471	539,904	0	4,482,117	*28,212,678*
Multnomah County	1,933,802	669,899	809,945	1,223,926	4,637,572	*24,178,071*
Charlotte Mecklenburg	3,807,151	982,257	1,834,587	30,590	6,654,585	*38,259,253*
City of Boston	4,999,395	549,683	1,609,514	388,929	7,547,521	*28,631,326*
Columbus	4,574,182	1,381,175	1,593,409	12,583	7,561,349	*33,263,627*
Denver	4,589,575	928,726	4,426,210	560,191	10,504,702	*38,874,412*
Average: Benchmark Group (Excl. Nashville)	$3,466,550	$785,316	$1,576,224	$322,439	$6,150,528	*$29,885,716*
Average Comparable Class	$2,197,510	$2,923,451	$884,395	$163,573	$ 3,729,611	$20,141,825

Source: National Public Library Association 2011 Statistical Report

Exhibit G – Circulation Comparison

Jurisdiction	Printed Media	CD/DVD	Other	Total
Metro Nashville / Davidson County	**2,659,236**	**1,260,726**	**288,443**	**4,208,405**
Average Benchmark Group	7,706,019	3,731,380	755,301	12,640,822
Average Comparable Class	4,823,460	2,314,702	253,797	7,416,725

Source: National Public Library Association 2011 Statistical Report

Exhibit H – Output Figures

Jurisdiction	Reference Assistance	Visits	Number of Programs	Program Attendance	E-Circulation
Metro Nashville / Davidson County	**277,259**	**3,723,416**	**6,173**	**238,576**	**174,840**
Average Benchmark Group	1,420,776	5,126,582	15,796	286,976	177,836
Average Comparable Class	900,763	4,061,928	6,941	176,827	47,807

Source: National Public Library Association 2011 Statistical Report

Conclusions: Based on the information presented above, some overall observations can be made:

1) The average funding for the entire Comparable Class was 30 percent more than the funding provided to the Nashville Public

Library. The average population of the Benchmark Group is 15 percent larger than that serviced by the Nashville Public Library while the average revenue funding was 102 percent more for the Benchmark Group.

2) The average funding for total materials for the Comparable Class was over twice the amount spent by the Nashville Public Library.

3) The variance in funding inversely correlates with circulation and output metrics.

5) The Nashville Public Library is nearly on par with the Benchmark Group with regard to program attendance and e-materials circulation and ahead of the Comparable Class average.

OBSERVATIONS AND RECOMMENDATIONS

A – Enhance Controls over Security of Collection Inventory

The Nashville Public Library lacks a functional methodology to track and monitor collection inventory shrinkage.

The library does have a routine procedure which is conducted called "weeding" whereby any item not circulated within a given time frame is generated on a report. The weeding report is then provided to staff who conducts a physical search for the item. If the item cannot be located, it is placed in a missing status. For items not eventually located, the Millennium system automatically updates the date field each year to the current year; thus, it is not possible to easily determine how long a specific item has been classified as missing. This causes an inability to determine how many library materials have been lost or stolen.

The limitations of the weeding process stem from the fact that it was designed simply to identify items in which patron demand no longer warrants shelf space. Based on interviews with library staff, the Millennium system could be modified to track the aging of missing items since it is logical to assume that the longer an item has been known to be missing, the less possibility it will be found. Items missing a given length of time could be moved out of the production data set on a yearly basis so that an indication of the volume of lost collection items could be produced. Changes up or down in the metric could be used as a tool to determine the continuing security of the library collection; whereas, at the present time no such metric exists.

Criteria:
- *The COSO Internal Control - Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Tracking monitoring, and communicating to appropriate management missing items enhance the control activities and monitoring component of a strong internal controls framework.

- Prudent Business Practice

Risk:
Tracking, monitoring and communication missing items within the library's collection inventory enhance the assurance that such items are properly secured. The ability of the Nashville Public Library to carry out its mission to the citizens of Nashville/Davidson County is directly correlated to its collection and this ability is greatly diminished when the library is unable to quantitatively measure losses.

Mitigating this risk is the fact that it is not unusual for an item in the library to go missing and then be returned later on (example; a book is

put back in the wrong place by a patron). Consequently, many items classified as missing may subsequently be found.

Recommendations:
Management of the Nashville Public Library should:

1. Leverage the Millennium system to develop a methodology for tracking, monitoring, and quantifying items missing from the library's collection.

2. Develop a policy defining at what specific length of time an item should be missing before it is classified as lost/stolen.

3. Generate a periodic and distributed to appropriate levels of management detailing the current number of missing items and the increase or decrease over time.

B – Lack of Segregation of Functions

The Nashville Public Library's Conference Room section has a single employee who is responsible for scheduling and recording what rooms have been reserved, ascertaining the receivable, collecting the receipts, and forwarding the receipts to the Administration Office. These functions are incompatible and should be properly segregated. No single individual should be responsible for any transaction from beginning to end, particularly the receivable and cash collection functions.

Criteria:
- *The COSO Internal Control- Integrated Framework* establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Ensuring incompatible functions are properly segregated enhances the control activities and monitoring component of a strong internal controls framework.

- *Internal Control and Compliance Manual for Tennessee Municipalities – Title 5, Chapter 14, Section 1 states* "responsibility for each step of cash handling and recording should be clearly established. If possible, the employees who receive cash collections should be different from those who maintain the books and records (bookkeepers)".

- Prudent Business Practice

Risks:
- Receivable may not be documented and cash may not be collected without detection.

- Inability of third party process review.

- Lack of ability to determine cash custody at every particular point in time.

Recommendation:
Management of the Nashville Public Library should properly segregate cash receipt functions within its Conference Room section. Specifically, the employee responsible for scheduling appointments and recording the receivable should not also be collecting the funds received or room deposits. One method would be for the conference scheduler to create an invoice ticket that is simply taken to the front desk for payment.

GENERAL AUDIT INFORMATION

Statement of Compliance with GAGAS

This audit was conducted from October 2012 to January 2013, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Scope and Methodology

The audit focused primarily on the period July 1, 2010, through June 30, 2012. The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, conducting interviews, observations, performing substantive tests and tests of internal controls on the entity's financial information, written policies and procedures, contracts and other relevant data.
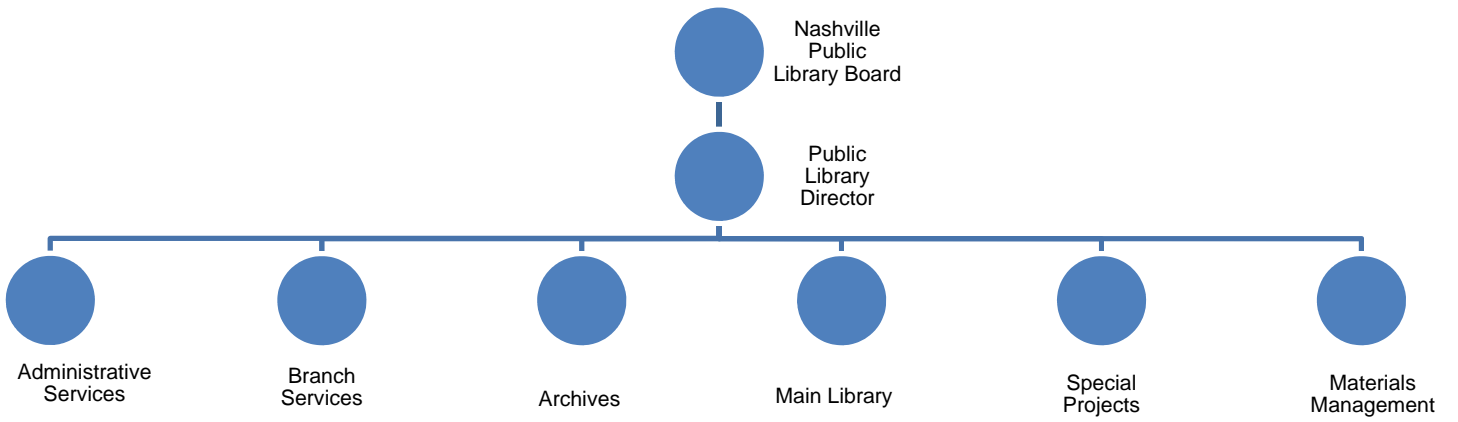
Criteria

In conducting this audit, the existing processes were evaluated for compliance with:

- Metro Nashville Civil Service Policies
- Metro Nashville Procurement Code
- *The COSO Internal Control- Integrated Framework*
- *Internal Control and Compliance Manual for Tennessee Municipalities*

Audit Staff

Carlos Holt, CPA, CFF, CIA, CFE, CGAP, Quality Assurance
Bill Walker, CPA, CIA, Engagement Manager
Sharhonda Cole, CFE, Engagement Team

APPENDIX A. ORGANIZATION CHART

Nashville Public Library Board

Public Library Director

Administrative Services

Branch Services

Archives

Main Library

Special Projects

Materials Management

APPENDIX B. MANAGEMENT RESPONSES

- Management's Responses Starts on Next Page -

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

March 22, 2013

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

Dear Mr. Swann,

The appropriate personnel of Nashville Public Library have reviewed your department's audit of our Agency and concur with the statements and contents found therein.

I would like to thank your department for the professional and thorough manner in which the audit was conducted. Should you have additional questions or need additional information, please let me know.

Sincerely,

Kent Oliver
Library Director

Nashville Public Library
Management Response to Audit Recommendations

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
A. Security of Assets Management of the Nashville Public Library should:			
1. Leverage the Millennium system to develop a methodology for tracking, monitoring, and quantifying items missing from the library's collection.	**Accept.** The Materials Management Committee is drafting procedures to address this issue.	Tricia Bengel, Associate Director for Collections and Technology Services	
2. Develop a policy defining at what specific length of time an item should be missing before it is classified as lost/stolen.	**Accept.** The Materials Management Committee is drafting policy to address this issue.	Tricia Bengel, Associate Director for Collections and Technology Services	
3. Generated and distribute a report to appropriate levels of management detailing the current number of missing items and the increase or decrease over time.	**Accept.** The Library ILS Manager is looking into what different reports are available. The Materials Management Committee is drafting a procedure to address this issue as well.	Tricia Bengel, Associate Director for Collections and Technology Services; James Staub, Library ILS Manager	
B. Segregation of Duties			
Management of the Nashville Public Library should properly segregate cash receipt functions within its conference room section. Specifically, the employee responsible for scheduling appointments and recording the receivable should not also be collecting the funds received or room deposits. One method would be for the conference scheduler to create an invoice ticket that is simply taken to the front desk for payment.	**Accept.** A procedure has been drafted and implemented where by the Conference Center Coordinator sends out invoices to via email. The invoice is also sent to the new LibraryFinance@nashville.gov email address. All library finance office staff has access to this email account. The finance office then keeps the invoice to match to the money when collected. In addition, all Conference Center money is now being sent directly to the finance office. The Conference Center Coordinator no longer is responsible for the money collection. In addition, a monthly report is being generated and sent to the Finance office from Library ITS from the EMS Scheduling Software as an independent review of receivable funds.	Susan Drye, Finance / Human Resources Manager; Larry Jirik, Library ITS Manager; Georgia Varble, Conference Center Coordinator	