



TENNESSEE

October 4, 2016

Ms. Keenon McCloy
Director of Libraries
Memphis Public Library and Information Center
3030 Poplar Avenue
Memphis, Tennessee 38111

Dear Director McCloy:

We have completed our special investigation pertaining to two separate incidents of missing funds from Cordova (start-up cash) and Cherokee (missing deposits) library branches. The objective of this investigation was to identify any control deficiencies that may have contributed to the missing funds. The scope of our special investigation was limited to an evaluation of internal controls over cash handling practices for the Cordova and Cherokee library branches. In addition to our special investigation, we also conducted follow-up activity to determine the status of corrective actions taken to address control deficiencies noted in our audit report of Library Revenue Receipts dated July 23, 2015.

We accomplished our objective by interviewing pertinent management and staff, reviewing relevant documentation and evaluating safekeeping practices. We also conducted select transaction testing of bank deposits and pertinent financial records for the period July 1, 2015 through August 19, 2016. The results of our investigation and follow-up activity are noted in the following pages and should provide management with an assessment of the Library's system of internal controls.

Conclusion

Auditors concluded that internal controls for cash handling need improvement to further reduce the risk of theft or loss. We noted opportunities to improve accountability over the start-up cash and implement detective controls for identifying errors and irregularities. We referred the incidents pertaining to missing cash to Police Economic Crimes Bureau for further criminal investigation. We commend Library Administration for taking immediate action to implement corrective actions to address deficiencies noted in the July 23, 2015 audit report.

Cordova Library Incident

On June 24, 2016, during opening procedures, the Circulation Supervisor discovered that the zippered bag containing the start-up cash and previous day's income was missing. According to Cordova Library management, approximately \$450.00 to \$550.00 in cash was in the bag. Daily cash collection records (Collection Record Form, bank deposit slip, etc.) for June 23rd reported funds totaling \$54.00, which was based upon the credit card settlement report and coins that were available.

Summary of Investigation

We evaluated relevant policies and procedures (safeguarding, cash handling) and interviewed pertinent staff regarding their cash handling duties and responsibilities. We also reviewed a sample of daily cash collection records for compliance with established policies and to identify significant internal control weaknesses. We noted the following:

- The written policies and procedures did not provide specific guidance that required two employees to witness the daily cash collection process. However, our review of cash collection records indicated that safekeeping practices involved two persons witnessing funds being removed from the register, counting the funds, documenting sales on pertinent records/forms and placing the funds in the safe overnight for safekeeping.
 - Library Administration identified the control deficiency after the incident occurred and implemented and distributed written policies and procedures (*PPM 959: Safe Deposit Procedures*) to formalize their safekeeping practices.
- Library Administration also decreased the start-up cash from \$450.00 to \$157.50 in an effort to minimize the City's fraud risk. However, we did not find any written authorization from the Finance Division that established accountability, including but not limited to, designating a fund custodian or specifying a change fund amount allocated as start-up or petty cash. Consequently, we found that funds totaling \$2,602.50 have been designated as start-up cash for daily collection activities at all Library branches (18).
- We found no evidence that Library management performed periodic surprise cash counts to identify errors and irregularities related to the start-up cash.
- The security camera that is mounted near the safe is not properly positioned to record activity directly related to the safe. Consequently, the security camera did not capture anyone leaving the safe with the missing money bag.

Cherokee Library Incident

On July 6, 2016, Finance Division personnel notified Library Administration that nine cash deposits totaling \$433.75 had been entered into Oracle, but the actual deposits had not been confirmed by the bank. The unconfirmed deposits were discovered during the year end reconciliation process, and dated back to July 2015. As of August 25, 2016, deposits totaling \$367.15 had not been confirmed by the bank.

Summary of Investigation

Since cash handling and safekeeping procedures apply to all Library branches, we did not interview pertinent staff of the Cherokee Library to inquire of their cash handling duties and responsibilities. However, we obtained and reviewed daily cash collection records, including the Customer Consignment Log (CCL) which is signed by Library and Loomis personnel confirming transfer of custody and final pick-up of cash deposits.

We interviewed Loomis personnel regarding their bank deposit pick-up practices and to request supporting documentation pertaining to the transfer of custody for the deposits. We also compared the CCL with the Loomis Vault Receiving Report (LVRR), which documents pertinent bank deposit information identifying the Loomis custodian and date of deposit pick up. We noted the following:

- We found no evidence that Library management periodically reconciled bank deposit slips received by the branch to the deposit slips received from the bank to ensure funds had been deposited.
- We noted entries on several CCLs that caused us to question the validity of the documentation (i.e., altered numbers, missing signatures, etc.). We also noted instances in which the deposit amounts and bag numbers listed on the CCL did not agree with the deposit amounts and bag numbers listed on the LVRR.
- We found no evidence that deposits totaling \$367.15 were ever received by the Loomis custodian. None of the deposits, which were reported on the CCL, were recorded on the LVRR. Further, we believe the missing deposits were attributed to theft and therefore referred the matter to Police Economic Crimes Bureau for further investigation. A summary of the missing deposits is as follows:

TABLE 1 – SUMMARY OF MISSING DEPOSITS

DATE	BAG NUMBER	DEPOSIT AMOUNT
7/23/2015	303	31.20
10/15/2015	310	25.00
2/17/2016	419	76.05
2/27/2016	308	70.90
3/11/2016	A41334411	56.40
3/22/2016	304	69.60
5/18/2016	303	38.00
TOTAL		367.15

Follow-up Activity

We evaluated management’s corrective action plan to address deficiencies noted in the audit report dated July 23, 2015. We reviewed support documentation to confirm that corrective actions had been implemented and where applicable, performed select procedures to determine the adequacy of measures taken to address prior deficiencies. We noted that six of ten (60%) deficiencies were adequately resolved. Library management stated that recommendations for three deficiencies were not feasible or considered low risk so no corrective action was taken. We found that one corrective action is currently in progress. The following table summarizes the results of our evaluation.

TABLE 2 – EVALUATION OF CORRECTIVE ACTIONS

	CONTROL DEFICIENCY	PLANNED CORRECTIVE ACTION	CURRENT STATUS
1	Daily revenue reconciliation process doesn't agree cash register transactions to Integrated Library System (ILS) transactions.	Bill Totals reports created detailing total collected (cash, check, or credit) by each library the previous day for fines and fees related to lost, overdue, or damaged items.	Completed
2	Daily transaction reports not produced for management review and daily reconciliation process.	The Finance Department verifies the daily transactions from cash register reports to the daily collection reports produced by the Circulation staff for accuracy.	Completed
3	Identity management doesn't include individual accountability.	This recommendation cannot be implemented due to ILS system limitations and funding.	N/A
4	Written approval not required for granting system privileges.	Implemented policy <i>PPM1801: Creating and Editing Workflows Accounts and Workflows Access Request Form</i> .	Completed
5	Password complexity not required.	ILS Coordinator changed all passwords to reflect 8+ characters using alpha-numeric characters and special symbols.	Completed
6	Passwords are not encrypted/masked to restrict view.	The only Administrator with access to view these rights is the ILS Coordinator .	N/A
7	System records not maintained for seven years and no written policy and procedures for record destruction.	Implemented policy <i>PPM1802: Records Retention</i> .	Completed
8	No written guidance for employees to handle refunds, voids, cash shortage/overages, "no sales transactions" and return checks.	Written policies will be provided for all staff involved in the revenue collection process.	In progress
9	No individual accountability for a cash drawer.	This recommendation cannot be implemented due to funding.	N/A
10	Overages and shortages not properly recorded to the over/short account in the general ledger.	Collection record revised to capture the overages and shortages.	Completed

N/A - no action taken

Recommendations

We believe that adequate measures taken to address deficiencies noted herein should assist with the establishment and implementation of an effective internal control system in accordance with Tennessee Code Annotated, Section 9-18-102(a). Therefore, we recommend that Library management:

- Confer with the City Comptroller to ensure the start-up cash currently designated across the Library system conforms to the City’s financial practice in accordance with City Code, Chapter 2-14, Section 2-14-7.

- Conduct periodic surprise cash counts.
- Periodically monitor and review all security cameras to identify and follow-up on questionable activity and to ensure they are properly positioned to monitor daily cash collection activity. Management should consider readjusting any cameras with obstructed views.
- Periodically monitor and review bank deposit slips to ensure confirmation is received from the bank (as evidenced by the returned bank deposit slip).
- Require that CCLs are properly completed to include required signatures of Loomis custodians for every deposit recorded along with the date and time of pickup. Periodically, management should review the logs for accuracy and to identify questionable activity (altered numbers, missing signatures, etc.). Also, periodically request and compare the LVRR with the CCL to identify errors and/or irregularities.
- Provide evidence of corrective actions to address remaining deficiency upon completion. For those deficiencies for which no corrective action was taken, management should consider an alternative course of action or document acceptance of risk in the risk assessment.

The work performed in this investigation does not constitute an audit under Government Auditing Standards. We appreciate the cooperation of the management and staff of Memphis Public Library Services, Finance, HR, MPD, Law and Loomis during our investigation. Please do not hesitate to call me at (901) 636-6241 if you have any questions or need additional assistance.

Sincerely,



Debbie Banks, CFE, CICA, CMFO
City Auditor

- c:
- Jim Strickland, Mayor
 - Doug McGowen, Chief Operating Officer
 - Brian Collins, Chief Financial Officer
 - Alexandria Smith, Chief Human Resources Officer
 - Bruce McMullen, Chief Legal Officer
 - Michael Rallings, Director, Police Services Division
 - Patrice Thomas, Deputy Chief Operating Officer
 - Margaret Coleman, Deputy Director, Administration – Financial Management
 - Jill Madajczyk, Deputy Director, Human Resources
 - Michael Fletcher, Deputy Director, Law Division
 - Mike Ryall, Deputy Director, Police Services Division
 - Rowena Adams, Deputy Chief, Administrative Services, Police Services Division
 - Sharonda Hampton, Deputy Chief, Investigative Services, Police Services Division
 - Chris Marszalek, Deputy Director of Libraries
 - Shirley Ford, City Comptroller
 - Chandell Carr, Manager, Equity, Diversity and Inclusion, Human Resources Division
 - Sammy Gullett, Finance Manager, Libraries