

Office of the City Auditor

INFORMATION CALENDAR

June 8, 2004

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor *ambw*

Subject: Berkeley Public Library Purchasing and Accounts Payable Audit

INTRODUCTION

A performance audit was performed at the Berkeley Public Library with the following objectives:

1. Evaluate the effectiveness of the internal control structure over purchasing and accounts payable operations in the Library's:
 - a. Administration Division and
 - b. Order Unit (Located in the Technical Services Division).
2. Identify and evaluate the effectiveness of Library efforts to reduce workers' compensation claims at the Central Library.

The attached audit report was presented to the Library Board of Trustees on May 12, 2004. Library management has agreed to implement all of the audit recommendations in the report. The Library Director and the Library Board of Trustees agreed that a report would be presented to the Board within six months regarding the implementation status of the audit recommendations in our report.

SUMMARY

The audit found that the internal control structure over the purchasing and accounts payable operations in both the Administrative Division and the Order Unit would not provide management with reasonable assurance that Library funds are being spent as the Board of Trustees had approved. The audit also found that the Library appears to be taking adequate steps to identify and correct safety concerns at the Central Library, a direct effort to help reduce the risk of workers' compensation claims.

The audit report includes 7 audit findings and 20 recommendations.

Concerns with the internal control structure include the following:

1. Several employees have the authorization to perform incompatible purchasing and accounts payable duties, in particular the Financial Manager. (Finding 1)

2. There is a lack of documented review and approval of purchase requests. Review and approval of accounts payable activity is not always sufficient. The names and signatures of supervisors and managers authorized to review and approve orders and payments are not on file for purchasing and accounts payable staff. (Finding 2 and 4)
3. The purchasing requirements for some dollar thresholds are unclear or subjective, and those that are clear are not always followed. (Finding 2)
4. Library material expenditures accounted for in the III library material database and the accounting system, FUNDS\$, are not being properly reconciled. (Finding 3)

The audit also found:

5. Library Administration is issuing purchase orders for almost all goods and services, but is not accounting for expenditures by purchase order, an unusual practice. (Finding 2).
6. Expenditures for library materials are often not accounted for in FUNDS\$ using the proper budgeted expenditure accounts.(Finding 5)
7. Purchasing and payment procedures in the Order Unit provide very little direction to staff. (Finding 4)
8. Voucher forms are being inappropriately used. (Finding 6)
9. It appears that adequate steps are being taken to identify and correct safety concerns at the Central Library. However, Central Library managers are not held specifically and directly responsible for the safety of their staff to the extent required by OSHA. (Finding 7)

Almost all the audit recommendations in the audit report are designed to improve the internal control structure over purchasing and accounts payable operations in the locations audited, as well as improve the quality of the information that is available in these areas.

FISCAL IMPACTS OF RECOMMENDATION

It does not appear the Library will incur additional costs to implement the audit recommendations.

CONTACT PERSON

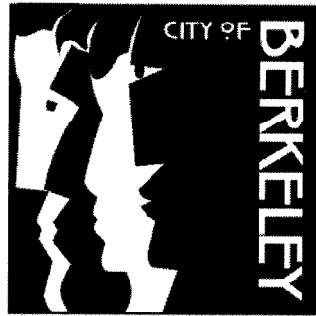
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City of Berkeley



Berkeley Public Library Purchasing and Accounts Payable Audit

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Presented to the Library Board of Trustees on May 12, 2004
Present to Council on June 8, 2004

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Berkeley Public Library Purchasing and Accounts Payable Audit
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I. OBJECTIVES OF THE AUDIT

The objectives of this audit were to:

1. Evaluate the effectiveness of the internal control structure over purchasing and accounts payable operations in the:
 - a. Library Administration Division and
 - b. Library Technical Services Order Unit.
2. Identify and evaluate the effectiveness of Library efforts to reduce worker compensation claims at the Central Library.

This audit was requested by the Director of Library Services and the Library Board of Trustees, and was scheduled to be performed as part of the fiscal year 2004 audit plan. The audit plan was presented to City Council on June 10, 2003.

II. SCOPE AND METHODOLOGY

This performance audit looked at the current purchasing and payment procedures used by the Library Administration Division and the Technical Services Division Order Unit. Audit fieldwork began September 11, 2003, as part of a prior audit, and concluded on February 24, 2004. Purchase and accounts payable data from fiscal year 2003 and year-to-date 2004 were examined.

The information used to complete this audit was obtained primarily through:

- Discussion with staff in the Library's Administration and Technical Services Divisions.
- Review of written policies and procedures pertaining to the ordering and payment of goods and services in the Library Administration and Technical Services Divisions.
- Use of Audit Command Language software (ACL) to perform analysis of the Library's accounts payable records in the City's automated accounting system, FUNDS.
- Review of documentation pertaining to the ordering and payment of goods and services in the Library Administration Division and Technical Services Division.

Purchases made with donated funds were outside the scope of this audit. Audit work was performed in accordance with Generally Accepted Government Auditing Standards and was limited to those areas specified in the scope and methodology section of this report.

III. BACKGROUND

During fiscal year 2003 the Berkeley Public Library (BPL) paid 3,571 invoices totaling \$3,120,805. The purchases were generally made by the Library Administration Division and the Order Unit in the Technical Services Division.

Library Administration Division

The BPL's Administration Division is where the goods and services for the Library are generally purchased and paid for, excluding library materials that will be used by library patrons. A Library Assistant (purchasing clerk), Office Specialist II (accounts payable clerk), and the Financial Manager perform or oversee these tasks.

A part time purchasing clerk does the purchasing. Requisition forms received from librarians and other Library staff are used to initiate most purchases. Purchase orders are issued for most purchases using QuickBooks Pro 99 software. The dollar value of the purchase determines whether it is exempt from any type of supervisory review and approval, or will require the approval of a division/section supervisor, the Library Director, or the Library Board of Trustees. The dollar value of the purchase will also determine the competitive pricing requirements. For example, purchases between \$750 - \$5,000 require the Library to obtain at least three written or telephone quotations. Purchases are generally shipped directly to the requisitioning party.

Once a week, the accounts payable clerk inputs invoice information for which payment is needed into GMBA Accounts Payable, a module in the City's automated accounting system, FUNDS\$. This input is provided to the City's Accounts Payable Unit in the Finance Department. It is also captured in the Accounts Payable Edit List report, which is reviewed and approved by the Library's Financial Manager. He signs the report to document his review and approval. The report with the Financial Manager's approval is provided to the City's Accounts Payable Unit in the City's Finance Department. Finance - Accounts Payable staff print the accounts payable checks for the Library and the expenditures are recorded in FUNDS\$. Finance - Accounts Payable staff do not review or approve the accounts payable information they receive from the Library. The checks are then provided to the Library's accounts payable clerk, who mails them to the vendors. A photocopy of each check and the support documentation for the purchase is placed in the vendor files. The vendor files are filed alphabetically.

The Library has a small number of formal contracts for goods and services. A formal contract is required when goods cost more than \$25,000, or for services that cost more than \$5,000. The Financial Manager in Library Administration inputs and approves the information necessary to set up each contract in the City's GMBA Purchase Inventory Module (PI) in FUNDS\$. Additionally, the Financial Manager can process and approve contract payments in FUNDS\$.

Technical Services – Order Unit

The Order Unit is responsible for ordering, receiving, and partial inventorying of all library materials that will be available to the public. Additional responsibilities include inputting each year's budget appropriation for library materials, and entering accounts payable data for these purchases into FUNDS. The check is issued, not by the Order Unit, but by Finance - Accounts Payable.

The Order Unit purchases approximately 35,000 items annually at a cost of about one million dollars. It is staffed with a Supervising Library Assistant and 2.5 other employees. The Supervising Library Assistant reports directly to the Technical Services Manager.

Library material purchases include books, periodicals, videos, and online databases for patron or librarian reference use. Most materials are purchased from jobbers, publishers, and bookstores. Jobbers are wholesalers that have a large inventory of books and media. The Technical Services Manager stated she annually asks for discount quotes from the leading library vendors. Quotes from vendors identify the discounts they will give the Library for the various types of material purchases and their shipping fees.

The Berkeley Library uses Innovative Interfaces Inc. (III) software to allocate and monitor the annual library materials budget, order library materials, maintain a cataloged inventory of library materials, and circulate library materials. Librarians identify the items they would like the Order Unit to purchase by sending them a list, or catalogs with the books/media items they want identified. Items ordered are charged against the budget of the ordering party. There are 149 cost center budgets in III for various types of library materials at various locations. III is not used to pay for library material purchases. All library material purchases are delivered to the Order Unit.

The City's FUNDS accounting system is used to pay for the library material purchases and account for this activity. The accounts payable input, to pay vendors, is done by the Supervising Library Assistant that supervises the Order Unit. This work is reviewed and approved by the accounts payable clerk and the Financial Manager in Library Administration. The checks are actually printed in the City's Finance Department by the Accounts Payable Unit, then provided to the accounts payable clerk in Library Administration for mailing. Finance – Accounts Payable does not review the accounts payable information that they receive from the Library.

IV. RESULTS OF AUDIT

The audit did not find any goods or services that had been purchased that appeared inappropriate for a library, and there was some documentation for every purchase reviewed. However, the audit did find that the internal control structure over the purchasing and accounts payable operations in both the Library Administrative Division and the Technical Services Order Unit would not provide management with reasonable assurance that Library funds are being spent as the Board of Trustees had approved.

Concerns with the internal control structure includes the following:

1. Several employees have the authorization to perform incompatible purchase and accounts payable duties, in particular the Financial Manager. (Finding 1)
2. There is a lack of documented review and approval of purchase requests. Review and approval of accounts payable activity is not always sufficient. The names and signatures of supervisors and managers authorized to review and approve orders and payments are not on file for purchasing and accounts payable staff. (Finding 2 and 4)
3. The purchasing requirements for some dollar thresholds are unclear or subjective, and those that are clear are not always followed. (Finding 2)
4. Library material expenditures accounted for in the III library material database and the accounting system, FUNDS\$, are not being properly reconciled. (Finding 3)

The audit also found:

5. Library Administration is issuing purchase orders for almost all goods and services; but is not accounting for expenditures by purchase order, an unusual practice. (Finding 2)
6. Expenditures for library materials are often not accounted for in FUNDS\$ using the proper budgeted expenditure accounts. (Finding 5)
7. Purchasing and payment procedures in the Order Unit provide very little direction to staff. (Finding 4)
8. Voucher forms are being inappropriately used. (Finding 6)

Regarding safety, it appears that adequate steps are being taken to identify and correct safety concerns at the Central Library. The only significant concern identified in this area was that too much of the responsibility for the safety of Central Library staff and patrons was being assigned to a Library analyst instead of the Central Library managers, as required by OSHA. (Finding 7)

**V. FINDINGS AND RECOMMENDATIONS –
ADMINISTRATION DIVISION**

**Finding 1 Lack of Segregation of Purchasing and Accounts Payable Duties in the
Library Administration Division**

The Financial Manager has the authorization or access to perform and approve many purchasing and payment tasks. Additionally, some purchasing and accounts payable duties have not been adequately segregated among his staff. As a result, unauthorized purchases and accounts payable activity may not be timely detected during the normal course of business.

Financial Manager

1. The Financial Manager is authorized in the FUNDS modules GMBA PI (purchasing) and GMBA AP (accounts payable) to order and receive goods and services, and approve their payment, without further review. For example, in PI he can requisition an item or service, approve the requisition, receive the item or service on-line (required for payment), and process the invoice in GMBA PI and AP for payment. He also reviews and approves the Accounts Payable Edit Reports. After these steps are completed, the invoice will be paid by the City's Finance - Accounts Payable Unit without further review. He can also create vendor accounts in both the PI and AP modules. This authorization increases the risk that a fictitious vendor could be paid. The Financial Manager stated that he does not use all of this authorization, and that his authorization in GMBA PI is only used to authorize Library contracts in FUNDS. However, if he did use all this authorization, unauthorized purchases and payments could very likely go undetected.
2. The Financial Manager also has the authorization, or the ability, to perform most if not all the Library's in-house purchasing and accounts payable procedures prior to processing a purchase or payment in FUNDS. This includes the following:
 - Authorized to requisition and approve purchases for \$5,000 or less.
 - Can issue a purchase order from the Library's QuickBooks Pro purchase order issuing software. During the audit, and while the purchasing clerk was on extended leave, the Financial Manager was observed to use QuickBooks to obtain purchase order information for the auditor. The auditor was told that QuickBooks password restrictions were not being used. However, he was also told that only the purchasing clerk and accounts payable clerk have QuickBooks software on their computers, and that a user would need to have the network password to one of these computers to access it. The Financial Manager has the purchasing clerk's network password so he can issue

purchase orders in an emergency. Additionally, while the purchasing clerk was on vacation, the QuickBooks Pro program was observed to be up and running for hours at the desk of the purchasing clerk, but nobody was working in this cubicle.

- Appears to have access to the Library Director signature stamps that are used to authorize QuickBooks Pro purchase orders greater than \$5,000 and less than \$25,000. There are two director signature stamps in Library Administration which are routinely used by the purchasing clerk, accounts payable clerk, and payroll clerk.

The Financial Manager stated that he has not used a lot of the authorization that he has, and does not perform many of the tasks that he has the ability to perform. However, just having the ability to perform unauthorized tasks puts the Library at risk.

Accounts Payable Clerk

The accounts payable clerk has access to QuickBooks Pro software on her computer and was authorized to issue a purchase order in at least one situation. She also has the ability to add, delete, or alter purchasing information in QuickBooks. QuickBooks software does not identify whether the accounts payable clerk or the purchasing clerk made the entry or adjustment. If an accounts payable clerk can perform purchasing duties, there is significantly increased risk that unauthorized purchases could be made and not be timely detected.

Payroll Clerk

The payroll clerk is authorized to review and approve the GMBA AP transaction entry work performed by the accounts payable clerk in the absence of the Financial Manager. Although the Financial Manager stated this is a rare occurrence, this provides for a lack of segregation of duties because the payroll clerk is also the backup for the accounts payable clerk, and has the same FUNDS\$ access to input into GMBA AP. In other words, this payroll clerk would be able to input accounts payable transactions into GMBA, then review and approve his own work. As a result, errors and irregularities could go undetected.

Recommendation for Library

- 1.1 Prohibit purchasing and accounts payable tasks and duties from being performed by the same employee. Emphasize to the purchasing and accounts payable clerks that they should never give their password to another employee, including their supervisor, if that password would allow these other employees to perform purchasing or accounts payable tasks.
- 1.2 An employee should not be authorized to approve his or her own requisitions.
- 1.3 Those that review and approve accounts payable work should not have the authorization to:

- Review or approve their own work,
- Perform or change the work they are reviewing.

Response from Library

We agree with the finding and recommendations.

- 1.1 Agree. Implemented 2/1/04. Purchasing and AP tasks will not be performed by the same employee.*
- 1.2 Agree. Implemented 2/1/04. No employee is allowed to approve their own requisitions.*
- 1.3 Agree. Implemented 1/13/04. Those that review and approve AP work will not have authorization to review/approve their own work or change work they are reviewing.*

Finding 2 Purchasing Procedures in the Library's Administration Division Do Not Provide For an Adequate Internal Control Structure

An adequate internal control structure does not exist over the purchasing procedures and the purchase order system in Library Administration. Concerns are as follows:

1. Written procedures do not require supervisors to approve most employee purchases that cost less than \$250 per item. Library staff stated that most requisitions are for less than \$250. As a result, unauthorized purchases that cost less than \$250 per item could go undetected during the normal course of business.
2. Written procedures provide no other means of making purchases except with a requisition and a purchase order (PO) or contract; however, it is not uncommon for purchases to be made without a requisition or a PO. Although this may sometimes be necessary, the procedure for ensuring these purchases and payments are adequately documented, reviewed, and approved, was not documented or apparent. This increases the risk of waste or abuse going undetected.
3. The determination whether a vendor will be selected from quotes, bids, or a request for proposal (RFP), and who will approve the purchase (supervisor, director, or Board), depends on the dollar value of the purchase, which is sometimes subjectively determined. As an example, the Financial Manager explained that if two \$4,000 computers were to be purchased, since the purchase would be less than \$5,000 per computer, a supervisor could approve this purchase. However, because he identified this as a high dollar purchase (criteria for high dollar determination is not documented in the written procedures), he stated that the manager's and director's signature would also be required. Such a policy can provide inconsistent results, and encourage avoidance of the policies and procedures

that management wants staff to follow.

4. QuickBooks Pro accounting software is not being properly used to issue and monitor PO activity. Concerns include the following:
 - Blanket POs are not used when multiple small purchases from a vendor are anticipated; for example, for office supply purchases. As a result, higher dollar purchase authorization and competitive pricing requirements are sometimes inappropriately bypassed.
 - During fiscal year 2003 and the first half of fiscal year 2004, 63% of the POs did not include a PO amount. If the PO does not identify the maximum dollars that can be spent, overspending can occur.
 - The purchasing clerk and accounts payable clerk both have software access to input or alter data in QuickBooks. Purchasing and accounts payable duties should always be segregated. Additionally, the individual issuing each PO is not identified anywhere on the PO or in QuickBooks.
 - Expenditures are not charged against POs in QuickBooks as is typically done when a purchase order system is used. A PO should identify the dollars authorized and spent for the authorized goods or services.
 - QuickBooks activity is not integrated in any way with the City's Purchase Inventory (PI) module, a module in the City's FUNDS\$ system which every other department in the City uses to issue POs.
5. Written procedures require section/division supervisors to pre-approve purchases ranging from \$250 - \$5,000. However, a list of authorized signatories and their signatures are not on file in Library Administration. As a result, authorized signatories can't be readily identified, and their signatures authenticated. During the audit, the Financial Manager was taking steps to correct this. It also appears that written supervisory approval for purchases is not always obtained before the purchase is made, though it is required in the written procedures.
6. Although written policies and procedures require multiple quotes or bids for purchases greater than \$750, but less than \$25,000, there is almost no documentation to support this is being done. Without a competitive price search, the Library may be spending more than it should for goods and services. During the audit, the Financial Manager stated that quotes or bids were being obtained, but acknowledged that this documentation was not being kept in the files.
7. Written procedures require a contract for the purchase of services that cost more than \$5,000. However, a few instances were identified where there was no contract or the contract was not registered and had not been reviewed and approved by the City Attorney's Office. As a result, terms of the purchase are more likely to be unclear or not in the Library's best interest.

8. Current procedures do not provide a reasonable assurance that purchases greater than \$5,000, but not more than \$25,000, will be approved by the Library Director as required. A few instances were observed where the Library Director's written approval was required but was not obtained, or a purchase was approved by staff in purchasing or accounts payable using her signature stamp. Written procedures do not address the use of the director's signature stamps. Also, in one situation, the Building Maintenance Supervisor authorized a contractor to perform work totaling more than \$5,000. This violated written policies and procedures, which require Library Director approval and a contract for services greater than \$5,000.
9. Current procedures do not appear to provide a reasonable assurance that purchases greater than \$25,000 will have a registered contract and be approved by the Library Board of Trustees. The Library pays a company approximately \$25,600 every six months for a software maintenance agreement. The software is used for checking out books. There was no contract or Board approval associated with the January 2003 invoice reviewed. However, a contract and Board approval was recently obtained. As a result, terms of the purchase are more likely to be unclear or not in the Library's best interest.

Recommendation for Library

- 2.1 Discontinue use of QuickBooks software for issuing POs. In its place, utilize the City's FUNDS system, and the City's Finance Department Purchasing and Accounts Payable Units, to issue POs. and account for expenditures related to POs. Implement use of the City's voucher forms and procedures to pay for expenditures in specific pre-approved instances when a PO would not be practical. Adopt the City's written policies and procedures, forms, etc. for making purchases, and paying for them, by PO or voucher.
- 2.2 A blanket PO should be used when the purchaser plans to use the same vendor for multiple purchases, such as for office supply purchases.
- 2.3 Require supervisor approval for all purchase requests, not just those for items costing more than \$250/item.
- 2.4 Implement procedures that will prohibit supervisors and managers from authorizing their own purchase requests, or payment for items they purchased.
- 2.5 Discontinue the use of the director's signature stamp for authorizing purchases or payments. In its place, the director should authorize specific staff to sign on her behalf. This authorization should be documented.
- 2.6 A list of supervisors and managers authorized by the director to authorize purchases should be maintained in purchasing and accounts payable. Their signatures should also be kept on file. It is further recommended that a similar list, and signatures, be kept for those

authorized to approve invoices for payment.

- 2.7 The thoroughness of the Financial Manager's review of accounts payable documentation prior to payment should be increased to the point where accounts payable documentation that is not complete, and does not contain the required evidence of review and approval, is not approved for payment. It should be returned for correction. As necessary, other internal controls should be put in place, which will provide a reasonable assurance that all purchasing and payment requirements are followed.

Response from Library

We agree with the finding and recommendations

- 2.1 *Agree to discontinue use of QuickBooks software for issuing POs. After appropriate training, Library will use the City FUNDS system to issue POs in keeping with the Berkeley Public Library administrative policy. This will be implemented on a six-month trial basis effective at the beginning of FY 2005.*
- 2.2 *Agree. This will be implemented beginning FY2005.*
- 2.3 *Agree. Implemented 2/1/04. Supervisor approval now required for all purchase requests.*
- 2.4 *Agree. This will be implemented beginning FY2005. Written procedures are in process that will prohibit supervisors and managers from authorizing their own purchase requests or payments.*
- 2.5 *Agree. Implemented 2/1/04. Use of signature stamp has been discontinued.*
- 2.6 *Agree. Implemented 1/1/04. Authorized signatures are now on file.*
- 2.7 *Agree. Implemented 2/1/04. Library Financial Manager now reviews AP documentation in the thorough manner that has been recommended.*

**VI. FINDINGS AND RECOMMENDATIONS –
ORDER UNIT**

Finding 3 Library Material Expenditures in FUNDS and III Are Not Reconciled

Library material expenditures accounted for in III and FUNDS are not being properly reconciled to make sure they are in agreement. As a result, errors and unauthorized activity can go undetected. For fiscal year 2004, the library materials budget in FUNDS was approximately \$1.3 million.

The Financial Manager stated that during fiscal year 2003 and year-to-date fiscal year 2004, the library materials budget available to be spent in FUNDS and III had been reconciled at the beginning of each of these fiscal years and was also reviewed at the time of each quarterly report to the Board of Library Trustees. However, he also stated that documentation was only available to support a December 17, 2003 reconciliation.

Regarding the December 17, 2003 reconciliation, the Financial Manager explained that the budget in III was \$189,653 greater than the budget in FUNDS because \$189,653 in unspent money was carried over in the III budget but not the FUNDS budget. Documentation supporting this explanation was not available. The current accounting process is a concern because, at the beginning of each year, the budget in both systems should be the same. It appears that the Library materials budgets and expenditures in III and FUNDS are not both being properly closed and reconciled at the end of each fiscal year.

Recommendation For Library

3. At the end of each fiscal year, the Library materials expenditures in III and FUNDS should both be closed and reconciled. At the beginning of each fiscal year, the budgets in both III and FUNDS should be the same. Throughout the year, the budget in III and FUNDS should be the same. Expenditures in the III and FUNDS system should be reconciled each month, but no more infrequently than quarterly. This reconciliation should be documented, and documentation should be kept supporting the validity of each reconciling item.

Response from Library

We agree with the finding and recommendation.

3. *Agree. This will be implemented 8/1/04. The Financial Manager, with the appropriate report from Technical Services Manager, will reconcile the accounts at least quarterly.*

Finding 4 Ordering and Payment Procedures In the Order Unit Do Not Provide An Adequate Internal Control Structure

An adequate internal control structure does not exist over the ordering and payment procedures in the Technical Services Order Unit. Concerns were as follows:

1. The Technical Services Manager stated that approximately half of the Library's 149 budgeted cost centers are not submitting library material orders that have been reviewed and approved by a supervisor. This includes many orders from the Central Library and all adult book orders from all locations. The manager further stated that the supervisory review and approval that does take place is not documented, and that some supervisors are reviewing and approving their own purchase requests. Without proper supervisory review of orders for appropriateness, there is an increased risk that unauthorized or inappropriate orders will be made and go undetected. If employees are authorized to approve their own work, in fact, supervisory review is not taking place, and errors and irregularities can go undetected.
2. The decision regarding where to purchase approximately two thirds of the books and other library materials is not based on a documented, objective analysis (cost and other factors). These library materials are generally purchased from jobbers or bookstores. As an example, the Library buys most of its adult library materials from the jobber Baker and Taylor. During fiscal year 2003, purchases totaled \$161,582. However, a documented analysis as to why almost all the adult books were purchased from this jobber was not available. Approximately \$1 million dollars is spent annually for library materials. Without an analysis to determine the best vendor for particular types of purchases, the Library may not be getting the best overall price and service.
3. Written procedures do not require the Librarians to review for appropriateness the orders and expenditures charged to the III cost centers they are authorized to use. Although many librarians probably are doing this, this responsibility has not been clearly assigned. For the cost centers not reviewed, there is a much higher probability that errors will go undetected.
4. It appears unauthorized purchases made by the Order Unit supervisor could go undetected, in particular if they were not entered into the III system. This supervisor routinely orders library materials, receives them, and enters the payment information into GMBA AP, which results in a check being issued by the City's Accounts Payable Unit. This supervisor is also authorized to create new vendors. Although the Financial Manager and an accounts payable clerk stated they did review her work, they explained they simply make sure that weekly invoice totals for each vendor, which are provided by the Order Unit, agree with what was entered into GMBA AP. This work is not reviewed by the supervisor's boss, the Technical Services Manager. Vendor invoices are not totaled to make sure they agree with the Order Unit's summary totals, and no

purchases are traced to III to ensure they were inventoried. The current review would not identify any unauthorized purchases or most errors.

5. The Order Unit supervisor is the only employee authorized to place orders electronically through III. Many of the large orders are placed this way. In her absence, it appears orders would not be placed until she returned.
6. Written policies and procedures for the Order Unit are minimal, providing little information about performing day-to-day operations, how they are going to be performed, and who is going to perform them. As a result, staff may not be performing tasks, or not performing them as management wants them performed.

Recommendations for Library

- 4.1 The Order Unit should not accept order requests that do not reflect evidence of supervisory review and approval. Supervisors should not be authorized to approve their own orders. Incorporate this policy and procedure into the written policies and procedures.
- 4.2 The vendor used to purchase a particular category of library materials, like adult books, should be based on a documented analysis of vendor quotes. This analysis should be retained. Such an analysis should be done no less frequently than annually.
- 4.3 Quarterly, librarians should review their budgets, unfilled orders, and expenditures in the III system for concerns. Concerns should be reported to the Order Unit supervisor and/or the Technical Services Manager in writing. If the review finds no exceptions, then the librarian should initial off on the III report totals to indicate that they are correct. This documentation should be kept on file in the Order Unit for at least two years. These policies and procedures should be incorporated into the written policies and procedures.
- 4.4 Employees who can purchase library materials should not be authorized to pay for them. The Order Unit Supervisor's authorization to input accounts payable information into FUNDS\$ should be removed, as well as her authorization to establish vendor accounts in FUNDS\$. The staff that input accounts payable information into FUNDS\$ to pay vendors should first verify on a sample basis that invoiced items were input into III before paying for them. Completion of this step should be documented.
- 4.5 Update the written policies and procedures for the Order Unit staff. They should be sufficiently detailed to permit a person, new to the Order Unit, to perform all the tasks performed by order unit staff as management wants them performed without help from other staff.
- 4.6 In the absence of the Order Unit supervisor, there should be a backup person authorized to send out orders electronically using III. The employee given backup authorization must not

have other incompatible duties that would allow use of this authorization to make unauthorized purchases that could go undetected.

Response from Library

We agree with the finding and recommendations.

- 4.1 Agree. This will be implemented by 8/1/04. The Order Unit will not accept order requests without the proper approval.*
- 4.2 Agree. Effective with the new fiscal year, Library will retain "best vendor" selection documentation. Analysis will be done annually.*
- 4.3 Agree. Effective with the new fiscal year, appropriate supervisors will review III expenditures quarterly, including a review of all funds, as well as materials received and not yet received.*
- 4.4 Agree. Effective with the new fiscal year, the Library's AP Clerk in Library Administration will make all entries into FUNDS. The Technical Services Manager will sign off on the work of the Order Unit Supervisor before it is transmitted to the Library's AP Clerk for FUNDS entry. To insure that there are no other incompatible duties, the Technical Services Manager no longer has the ability to enter orders in III, print or send electronic POs or invoice materials.*
- 4.5 Agree. Implementation date is 10/1/04. A detailed policies and procedures manual for the Order Unit is currently being written.*
- 4.6 Agree. Implementation date is 10/1/04. We are training a back-up person who can fill in for the Order Unit Supervisor.*

Finding 5 Library Material Expenditures Are Not Being Properly Accounted for in FUNDS

The Library is not using FUNDS to account for library material expenditures at the same level of detail that they are using to budget for these expenditures. There are ten library material expenditure accounts with a budget, but expenditures are only being charged to two of these accounts. As a result, the official accounting records can't be used to monitor budget versus actual performance.

Library Material Purchases Reported in FUNDS for Fiscal Year 2003

	Library Material Procurement Account – FUNDS	Account Description	Revised Budget in FUNDS	Booked Expenditures
1	301-9201-450-5560	Central Lib. – General Service Admin	\$289,435	\$816,682
2	301-9202-450-5560	Central Lib. – Children’s Services	\$69,790	\$0
3	301-9203-450-5560	Central Lib. – Art & Music	\$101,562	\$0
4	301-9204-450-5560	Central Lib. – Ref.	\$301,601	\$66,162
5	301-9302-450-5560	North Branch	\$88,874	\$0
6	301-9303-450-5560	South Branch	\$87,623	\$0
7	301-9304-450-5560	West Branch	\$78,345	\$0
8	301-9305-450-5560	Claremont Branch	\$85,567	\$0
9	301-9306-450-5560	Special Services	\$4,870	\$0
10	301-9402-450-5560	Lib. Tech. Services	\$22,627	\$0
			\$1,130,294	\$882,844
	Difference			\$274,450

The Financial Manager stated that library material expenditures were not being charged to budgeted cost centers in FUNDS because it would be too time consuming. He stated that this would require the Order Unit to allocate each library material invoice charged to one or more of the 149 cost centers in III to the ten library material expenditure accounts in FUNDS. The auditors agree this approach would not be practical. However, alternatively, it does not appear that a great deal of time or effort would be required to use III summary reports with year-to-date expenditure information by cost center to periodically prepare adjusting journal entries to properly account for Library material expenditures using the ten budgeted FUNDS expenditure accounts.

Recommendation for Library

- No more infrequently than quarterly, use summary III reports to prepare an adjusting journal entry to properly allocate year-to-date library material expenditures to the proper FUNDS expenditure account.

Response from Library

We agree with the finding and recommendation.

5. *Agree. This will be implemented effective with the new fiscal year. The Library Financial Manager will follow recommendation and make quarterly adjusting journal entries to spread costs over various Library accounts in FUNDS. Technical Services Manager will provide monthly reports for him to work from.*

Finding 6 Improper Use of Voucher Form

Library voucher forms are not being used for the purpose for which they were designed. Library management explained that the voucher form was “merely used as a cover to help keep back-up organized for filing.”

The voucher number is actually the check number, and the date the voucher was “...approved and ordered paid by the Board of Library Trustees at meeting of...” is the check date. Library vouchers are also stamped with the Library Director’s signature stamp next to a statement that states she is certifying that the purchase to be paid for was received and the quantity and quality have been verified. However, she is not performing this task. The actual review and approval of the Order Unit accounts payable payments is documented by the Financial Manager signing the Accounts Payable Edit List report before checks are issued.

The purpose of a voucher form is to impose an internal control structure over payments. The form should be prepared at the time an obligation is incurred, not after the fact. Vouchers should also show the correct accounting entry to be made, which the Library’s voucher form does not do, and provide for authorization of payment by signature of one or more officers.

It appears that everyone is aware that Library vouchers are not being used for vouching purposes. The vouchers document evidence of review and approval that did not take place.

Recommendation for Library

6. Discontinue using voucher forms for purposes other than their designed purpose, vouching. Discontinue completing voucher forms with inaccurate information.

Response from Library

6. *Agree. Implemented 4/1/04. Voucher form has been replaced with a new form that complies with audit recommendation. It was explained that the “old” form had only been used as a cover for payment documentation.*

**VI. FINDINGS AND RECOMMENDATIONS –
EMPLOYEE SAFETY**

Finding 7 Managers Are Not Held Specifically and Directly Responsible for the Safety of Their Staff

Although OSHA holds the seven managers at the Central Library (Kittridge and Bancroft buildings) responsible for the safety of their employees, this responsibility has largely been assigned to a Library analyst.

At present, an analyst is responsible for performing the monthly, documented, safety inspections for the entire Central Library, and for ensuring that all safety concerns identified are corrected. However, OSHA requires an Injury and Illness Prevention Program (IIPP) that assigns this responsibility to the managers. The IIPP states that Library managers should be the ones responsible for conducting and documenting regular safety inspections, and ensuring all safety concerns in their area are corrected. The City's Occupational Health and Safety Coordinator stated that since the analyst was very knowledgeable about the OSHA requirements, he recommended that this analyst accompany these managers (or their designees) during inspections, and help them to get corrective actions completed timely, as well as provide guidance and advice. The Occupational Health and Safety Coordinator also stated that he commends the Library for working very hard to comply with OSHA requirements.

Recommendation for the Library

7. Assign the seven managers in the Central Library the responsibility for performing formal, documented, monthly or quarterly safety inspections, and ensuring that the safety concerns identified are timely corrected. Managers can delegate these duties to subordinate staff, but can't delegate the responsibility.

Response from Library

7. Agree. Implemented 3/1/04.

VIII. CONCLUSION

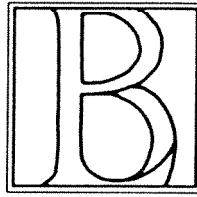
The Berkeley Public Library's purchasing and accounts payable internal control structure is not adequate. As a result, the risk is greater than necessary that purchasing and accounts payable errors and irregularities could go undetected. To significantly reduce this risk, those audit recommendations that were not implemented during the course of the audit should be implemented as soon as possible.

The Auditor's Office recommends that the Library make the following improvements to their purchasing and accounts payable operations:

- Establish and clearly document all the requirements for purchases and their payment, and how these requirements will be enforced.
- Improve the segregation of duties, and the review and approval, over purchasing and accounts payable activity.
- Use the City's FUNDS\$ system to issue purchase orders instead of QuickBooks Pro software.
- At the beginning of each fiscal year, the budgets in both the III library material system and FUNDS\$ should be the same, and neither should have any expenditures. Throughout the year, the budget in III and FUNDS\$ should continue to be the same. Expenditures in the III and FUNDS\$ system should be reconciled each month, but no more infrequently than quarterly.
- Assign each Central Library manager the responsibility for performing formal, documented, monthly or quarterly safety inspections, and ensuring that the safety concerns identified are timely corrected.
- Account for library material expenditures using the same level of detail that you use to budget for them.
- Discontinue completing voucher forms with evidence of review and approval that did not take place.

Lastly, we would like to express our appreciation to the Berkeley Public Library for the cooperation and assistance provided to the auditor during this audit. We appreciate the fact that Library management requested this audit, and that many significant steps were taken to improve internal controls before the issuance of this report.

MAY 24 2004

City Auditor**BERKELEY PUBLIC LIBRARY**

Jackie Y. Griffin

Director of Library Services

To: Ann-Marie Hogan
City Auditor

From: Jackie Griffin *my 5/21/04*
Director of Library Services

Date: April 29, 2004

Subject: Berkeley Public Library Purchasing and Accounts Payable Audit

The Berkeley Public Library would like to thank the City Auditor and her staff for their efforts in conducting the purchasing and accounts payable audit. We requested the City Auditor to review our controls and procedures in these areas and make recommendations for improvement with particular emphasis on the library material ordering process.

In our responses you will note that we have implemented or are in the process of implementing the audit recommendations including:

- Better segregation of purchasing and accounts payable duties in the Library Administration Division.
- Improved purchasing procedures in the Library Administration Division for better internal control.
- Periodic reconciliation of library material expenditures in FUNDS and the III materials ordering system.
- Improved ordering and payment procedures in the Order Unit for better internal control.
- Periodic adjusting journal entries for library material expenditures in FUNDS.
- Replacement of the outdated voucher form.
- Increased manager responsibility for staff safety.

Thank you again for conducting the Berkeley Public Library purchasing and accounts payable audit.

cc: Board of Library Trustees

