

## **Mission Statement**

*The Hamilton Public Library unites people and ideas in a warm and welcoming environment. The library's staff, collections, and access to global electronic resources help to enrich the lives of individuals. The library actively champions literacy, access to information, and the joy of reading.*

## **Strategic Priorities**

*Empower Communities   Celebrate Diversity   Strengthen Our Organization*

## **HAMILTON PUBLIC LIBRARY BOARD**

**Audit Committee Meeting  
Tuesday, February 12, 2008  
Central Library, Administration Committee Room**

4:30 p.m. – 5:30 p.m.

### **AGENDA**

1. Selection of Chair of Audit Committee
2. 2007 External Audit Plan Attachment #2
3. Library Fines and Other Revenues Attachment #3
4. Adjournment



# Hamilton Public Library

**Date:** February 8, 2008

**To:** Chair and Members of the Audit Committee

**c.c.:** Ken Roberts, Chief Librarian

**From:** William Guise, Director, Finance and Facilities  
Hamilton Public Library

**Subject:** **2007 External Audit Plan**

---

## **RECOMMENDATION:**

- (a) That Grant Thornton LLP Chartered Accountants be confirmed as External Auditors for the Hamilton Public Library Board, and
- (b) That the Report to the Audit Committee - Initial Communication on Audit Planning, prepared by Grant Thornton LLP Chartered Accountants for the 2007 audit be received for information.

## **BACKGROUND:**

Grant Thornton, Chartered Accountants, audit approach and scope of audit work for the Hamilton Public Library Board for the 2007 fiscal year is provided in the attached Initial Communication on Audit Planning. The Audit Plan communicates to the oversight body Grant Thornton's overall audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. New auditing standards from the Canadian Institute of Chartered Accountants ("CICA") focus the audit on areas where there is greater risk of misstatement. Grant Thornton has tailored their audit of the Library to several specific audit areas.

Grant Thornton was appointed the City's external auditor by Council at its meeting on September 13, 2006 for a period of five (5) years covering the fiscal years from 2006 to 2010. Under Municipal Act, the external auditor for the City is also the auditor for the Library Board.

Report to the Audit Committee – Initial Communication on Audit Planning  
Hamilton Public Library Board  
For the year ended December 31, 2007

Grant Thornton 

Grant Thornton LLP  
Chartered Accountants  
Management Consultants

December 12, 2007

To the Members of the Audit Committee of the  
Hamilton Public Library Board

We are pleased to enclose a copy of a document titled Report to the Audit Committee – Initial Communication on Audit Planning. This document covers the terms of our financial statement audit engagement of the Hamilton Public Library Board for the year ending December 31, 2007. This document will help the committee understand the audit and non-audit services we provide to the Hamilton Public Library Board and the level of responsibility assumed by Grant Thornton LLP under Canadian generally accepted auditing standards.

If you have any particular comments, concerns or additional expectations that may require us to undertake additional work over and above that which is currently contemplated, please do not hesitate to raise them at our scheduled meeting.

Yours very truly,

**GRANT THORNTON LLP**

*Grant Thornton LLP*

Thane MacKenzie, CA  
Partner

[cc: Bill Guise]

Suite 1040  
Standard Life Centre  
120 King Street West  
Suite 1040  
Hamilton, Ontario  
L8P 4V2  
T (905) 525-1930  
1-800-3092 (Ontario)  
F: (905) 527-4413  
E-mail: [Hamilton@GrantThornton.ca](mailto:Hamilton@GrantThornton.ca)  
[www.GrantThornton.ca](http://www.GrantThornton.ca)

Canadian Member of Grant Thornton International

# Contents

	Page
<b>Hamilton Public Library Board – Snapshot of the business and recent changes</b>	1
<b>Achieving effective governance</b>	2
<b>Quality assurance, independence and communication</b>	3
<b>Our audit approach</b>	4
<b>Client service team</b>	7
<b>Audit timetable</b>	8
<b>Fee schedule</b>	9
 <b>Appendices</b>	
<b>Appendix A – Accounting and auditing developments .....</b>	<b>10</b>

## Hamilton Public Library Board – Snapshot of the business and recent changes

The following is a summary of recent changes to the Board's business environment, and relevant accounting and auditing standards. We have considered these factors in preparing the 2007 audit plan for Hamilton Public Library Board.

### Organization specific changes

**We consider all relevant factors when preparing an audit plan specifically tailored to your organization**

The following changes have occurred since the December 31, 2006 audit, which are expected to impact on the 2007 audit:

- Implementation of PSG-7 relating to tangible assets requires municipalities and local boards to add disclosure to the financial statements on the status of the inventorying and valuation of tangible capital assets.

### Accounting standards

As in prior periods, there continues to be significant change with respect to accounting standards.

Accounting standards issued by the CICA and those under development which may affect your business for the current and future years include:

- PSAB Section 3150 – Tangible Capital Assets
- PSAB Section 1200 – Financial Statement Presentation
- PSG-7 – Tangible Capital Assets of Local Governments

Further details of the changes to accounting standards are included in Appendix A. If you have any questions about these changes we invite you to raise them during our meeting. We will be pleased to address your concerns.

## Achieving effective governance



There are several fundamental components of effective governance. The audit committee plays a key role in achieving strong governance, particularly with respect to financial reporting.

## Roles in ensuring strong financial reporting

The audit committee helps set the tone for the organization by emphasizing honesty, ethical behavior and fraud prevention

<p><b>Role of the Audit Committee</b></p>	<ul style="list-style-type: none"> <li>• Help set the tone for the organization by emphasizing honesty, ethical behavior and fraud prevention</li> <li>• Oversee management, including ensuring that management establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting</li> <li>• Directly oversee the work of the external auditors including reviewing, discussing, and approving audit plan</li> <li>• Review internal and annual financial statements and recommend approval to the board</li> </ul>
<p><b>Role of Management</b></p>	<ul style="list-style-type: none"> <li>• Prepare financial statements in accordance with Canadian GAAP (PSAB)</li> <li>• Design, implement and maintain effective internal controls over financial reporting processes</li> <li>• Exercise sound judgment in selecting and applying critical accounting principles</li> <li>• Safeguard assets</li> <li>• Prevent, detect, and correct errors</li> <li>• Provide representation to external auditors</li> <li>• Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements</li> </ul>
<p><b>Role of Grant Thornton LLP</b></p>	<ul style="list-style-type: none"> <li>• Provide an audit opinion that the financial statements are in accordance with Canadian GAAP</li> <li>• Conduct our audit in accordance with Canadian GAAS</li> <li>• Maintain independence and objectivity</li> <li>• Be a resource to the audit committee and management</li> <li>• Communicate matters of interest to the audit committee</li> </ul>

## Quality assurance, independence and communication

Grant Thornton LLP has a  
robust quality control  
program

### Quality assurance

Grant Thornton LLP has a robust quality control program that forms a core part of our client service. We combine internationally developed audit methodology, advanced technology, rigorous review procedures, mandatory professional development requirements, and the use of specialists to deliver high quality audit services to our clients. In addition to our internal processes, we are subject to inspection and oversight by standard setting and regulatory bodies. We are proud of our firm's approach to quality assurance and would be pleased to discuss any aspect with you at your convenience.

### Independence

We have a rigorous process where we continually monitor and maintain our independence. We are required to communicate this annually to the audit committee of Hamilton Public Library Board in writing. The process of maintaining our independence includes, but is not limited to:

- Identification of threats to our independence and putting into place safeguards to mitigate those threats. For example, we evaluate the independence threat of any non-audit services provided to Hamilton Public Library Board;
- Confirming the independence of our engagement team members.

Throughout the audit  
process we encourage the  
audit committee to contact  
us if there are any  
questions or concerns

### Communication with the audit committee

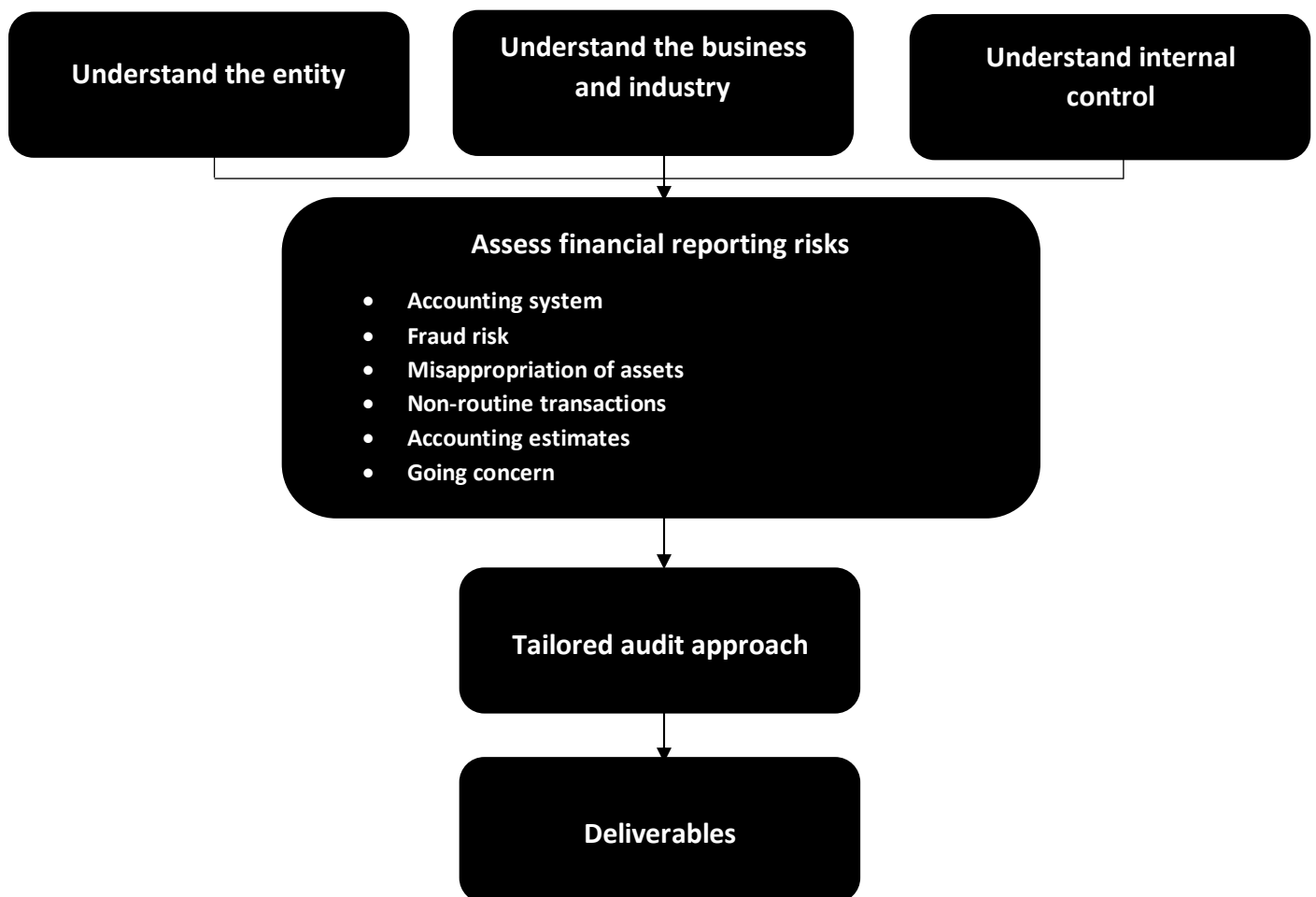
Communication is key to quality service. In conducting our audit we will communicate frequently with the audit committee so that issues and concerns are addressed in a timely and productive manner.

We encourage the members of the audit committee to contact us at any time if questions or concerns arise.



## Our audit approach

An understanding of your organization and your business drives the Grant Thornton LLP audit approach. Tailoring is central to our approach and a key aspect in providing the Hamilton Public Library Board with quality service.



The objective of our audit is to obtain reasonable assurance that the financial statements are free of material misstatement. The responsibilities of the audit committee and management are broad and therefore the financial statement audit engagement is not designed to identify all matters which may be of interest to the audit committee or management in the discharge of these responsibilities.

However, we will communicate the following should we encounter them during the course of our audit:

- Misstatements, other than trivial errors
- Fraud
- Misstatements that may cause future financial statements to be materially misstated
- Illegal or possibly illegal acts, other than those considered inconsequential, and
- Material weaknesses and significant deficiencies in internal control over financial reporting.

**Internal control**

Our audit includes gaining an understanding of the Hamilton Public Library Board’s internal control over financial reporting. Our understanding will focus on processes associated with the identified financial statement risk areas (see below). The audit team uses this understanding to determine the nature, extent and timing of our audit procedures.

Our understanding may also result in valuable internal control findings for your consideration. Please note that the objectives of a financial statement audit are different from fiduciary control objectives. Therefore, management and the audit committee cannot rely on our findings to discharge their responsibilities in this area.

**Risk assessment**

Our risk assessment process has identified the following areas where we will focus our attention:

<b>Risk area</b>	<b>Planned audit procedures</b>
Operating expenses	Review supporting documentation and management estimates with respect to the completeness and accuracy of significant year-end accruals. Analysis of expenses compared to expectations and prior years.
Employee compensation	Review supporting documentation and management estimates with respect to the completeness and accuracy of significant payroll-related year-end accruals. Analysis of payroll expenses by department compared to expectations and prior years.

**...in our opinion, the financial statements present fairly, in all material respects, the financial position of...**

**Materiality**

The purpose of our audit is to provide an opinion as to whether your financial statements present fairly, in all material respects, the financial position, financial activities and changes in financial position in accordance with generally accepted accounting principles as of December 31, 2007. Therefore, materiality is a critical auditing concept and as such we apply it in all stages of the engagement.

Applying the concept of materiality at the planning and execution stage of the engagement recognizes that the audit team cannot verify every balance, transaction or judgment made in the financial reporting process. During audit planning, we make a preliminary assessment of materiality for purposes of developing our audit strategy, including determining the extent of our audit

procedures. During the completion stage, we consider not only the quantitative assessment of materiality, but also qualitative factors, in assessing the impact on the financial statements, our audit opinion and the matters reported to the audit committee.

#### **Fraud considerations**

We are responsible for planning and performing the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement caused by error or by fraud. Our audit procedures consider the requirements of CICA Handbook Section 5135, The Auditor's Responsibility to Consider Fraud and Error. Section 5135 was issued to heighten the awareness of the potential for fraud when planning and executing audits and it emphasizes the need for professional skepticism during the audit.

**Fraud can occur in any organization, at any time, and can be perpetrated by anyone.**

The following provides a summary of some of the fraud-related procedures we plan to perform during the audit.

- Discuss amongst the engagement team where the financial statements may be susceptible to material misstatement due to fraud.
- Gather information to identify the risks of material misstatement due to fraud, including our understanding of internal control and making detailed inquiries to both management and the audit committee.
- Using the information gathered in our risk assessment process.

#### **Client assistance and readiness**

Client assistance and readiness are integral to the successful meeting of our targeted report release date. As presented further below, it is also critical in meeting our agreed fee. To facilitate the communication process, we have provided management with a letter detailing expected assistance and the critical milestone dates.

#### **Deliverables**

We are committed to executing our audit in a most effective, efficient and timely manner. We will provide the following deliverables to the audit committee:

- Initial communication on audit planning,
- Audit report on the financial statements of the Hamilton Public Library Board,
- Communication of audit results, and
- Management letter that provides our observations and recommendations regarding internal controls, based on matters identified during the course of our audit.

**We are committed to executing our audit in a most effective, efficient and timely manner**

## Client service team

We have assembled a team of professionals to demonstrate our commitment to quality and service to Hamilton Public Library Board.

<b>Engagement Member</b>	<b>Role</b>	<b>Email</b>
Thane MacKenzie	Engagement partner	tmackenzie@grantthornton.ca
Melanie Dugard	Audit senior manager	mdugard@grantthornton.ca
Jennifer Verhelle	Adult senior	jverhelle@grantthornton.ca

## Audit timetable

October 10-12, 2007	Audit planning
January 2008 (TBD)	Meeting with Audit Committee and presentation of Report to the Audit Committee – Initial Communication on Audit Planning
March 24-27, 2008	Year-end visit
April 15, 2008	Preliminary clearance to be provided on draft financial statements
April 2008 (TBD)	Meeting with the Audit Committee and presentation of Report to the Audit Committee – Communication of Audit Results

## Fee schedule

### **Our approach to dealing**

**with fees is to avoid  
surprises**

### **Fee proposal considerations**

Upfront and periodic discussions are central to our approach in dealing with fees. Our goal is to avoid surprises by having early and frank communication. We wish to provide the Hamilton Public Library Board with a competitive price and fair value, while also allowing sufficient audit hours to conduct an effective audit and deliver quality service.

Our proposed fee for the audit for the year ended December 31, 2007 is in accordance with the proposal provided to the City of Hamilton, and is based on the level of activity and the anticipated complexity of the audit of the Board's financial statements.

The proposed fee is based on receiving the following from management:

- Draft financial statements including the notes to the financial statements;
- All working papers and schedules as outlined in our requirements letter;
- Trial balance together with reconciled control accounts;
- All books and records made available to us when requested; and
- Use of the Library Board's staff to help us locate information and provide explanations.

Our ability to deliver the services outlined in the agreed timetable and our proposed fee will depend upon these schedules being available/tasks being completed by the due dates. If there are any variances to the above plan, we will discuss them with you and agree to any additional fees before costs are incurred, wherever possible.

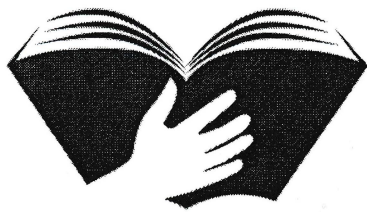
Any unforeseen work outside the scope of this proposal will be billed separately after discussion with the appropriate officials.

## Appendix A – Accounting and auditing developments

Public Sector Accounting Board	Effective date	Assessment of Applicability
<p><b>PSAB Section 3150 – Tangible Capital Assets</b></p> <p>PSAB has approved revisions to Section PS 3150 “Tangible Capital Assets.” This Section now applies to all levels of government, including local governments. The most prominent change for local governments is the requirement to recognize and amortize all their tangible capital assets.</p> <p>Revisions to the Section include:</p> <ul style="list-style-type: none"> <li>• The definition of cost has been amended to clarify that cost is the gross amount, and that capital grants are not to be netted against the cost of the related tangible capital asset. Guidance on the cost of leased tangible capital assets is also provided.</li> <li>• The 40-year guideline on the amortization period has been removed.</li> <li>• There is additional guidance on the commencement and cessation of capitalizing carrying costs.</li> <li>• During the period of transition, local governments should follow Public Sector Guideline PSG-7, Tangible Capital Assets of Local Government.</li> </ul>	<p>The revised Section applies to local governments for fiscal years beginning on or after January 1, 2009.</p> <p>Earlier adoption is encouraged.</p>	<p>Disclosure of the status of implementation of this section is required in the current year financial statements, and is subject to audit.</p>

Public Sector Accounting Board	Effective date	Assessment of Applicability
<p><b>PSAB Section 1200 – Financial Statement Presentation</b></p> <p>This Section has been revised as a result of the CICA Public Sector Accounting Handbook requirement to adopt the full accrual basis of accounting for local governments.</p> <p>This Section establishes standards for recognition, presentation and disclosure in government financial statements. The main features of the Section are as follows:</p> <ul style="list-style-type: none"> <li>• Governments are required to present a statement of financial position, statement of operations, statement of changes in net debt and a statement of cash flows.</li> <li>• Financial statements should present net debt and accumulated surplus/deficit on the statement of financial position, annual surplus/deficit, the change in net debt and changes in cash flows.</li> <li>• Current year budget and actual figures are to be presented on both the statement of operations and the statement of changes in net debt.</li> <li>• Funds and reserves are to be reported in the notes or schedules when the government chooses to report on them.</li> </ul>	<p>This Section currently applies to senior levels of government.</p> <p>This Section will apply to local governments for fiscal years beginning on or after January 1, 2009.</p> <p>Earlier adoption is encouraged</p>	<p>No impact on the current year financial statements</p>
<p><b>PSG-7 – Tangible Capital Assets of Local Governments</b></p> <p>This Guideline provides transitional guidance to local governments on presenting information related to tangible capital assets in notes or schedules to its financial statements until such time as Tangible Capital Assets, Section PS 3150 is adopted by local governments. PS 3150 applies to local governments for fiscal years beginning on or after January 1, 2009, although earlier adoption is encouraged.</p>	<p>This Guideline applies to fiscal years beginning on or after January 1, 2007.</p> <p>Earlier adoption is encouraged.</p>	<p>Applicable for the current year.</p>





# Hamilton Public Library

**Date:** February 8, 2008

**To:** Chair and Members of the Audit Committee

**c.c.:** Ken Roberts, Chief Librarian

**From:** William Guise, Director, Finance and Facilities  
Hamilton Public Library

**Subject:** **Library Fines and Other Revenues**

---

## **RECOMMENDATION:**

That the attached Internal Audit Report 2007-10 on Library Fines and Other Revenues prepared by the Internal Audit section of the City of Hamilton Audit Services Division be accepted for information.

## **BACKGROUND:**

A comprehensive review of the Library's processes related to fine revenue and other revenue was undertaken by the Internal Audit section of the City's Audit Services Division in the last quarter of 2007. As part of the audit, the Internal Audit section visited several library branch locations examining transactions and reviewed procedures with staff and current procedure manuals.

As part of the audit, the internal auditor has made written observations on procedures that may appear to be strengthened. The report included recommendations by the internal auditor on how the procedures could be strengthened. The report was reviewed by staff and Library Management and an action plan has been developed to address the internal auditor's recommendations.

The attached report details the observations and recommendations by the internal auditor and the Library's action plan.

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2007-10  
LIBRARY FINES AND OTHER REVENUES**

Attachment #3

DRAFT

#	OBSERVATION OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><b>Information Technology Environment</b></p> <p>The Library (HPL) uses a Sirsi-Dynix integrated library system (ILS) called Horizon to manage a database of library materials and patrons' personal information. Access to Horizon is by generic branch usernames and a password that is shared by close to 200 users at the 24 locations. Such access allows circulation staff to perform tasks that include updating patrons' records, checking material in and out, processing patrons' payments and the waiving or writing-off of unpaid fines.</p> <p>Without user-specific usernames and passwords, it is not possible to monitor individual access to the system and to track transactions processed by individual employees. As such, management's ability to detect and monitor errors and irregularities perpetrated by specific users is impaired. In addition, shared usernames and passwords compromise system security by increasing the likelihood of unauthorised access to library records and patrons' personal information.</p>	<p>That management approach Sirsi-Dynix about the feasibility of switching to user-specific usernames and passwords to access the existing version of Horizon (also known as 'Unicorn').</p> <p>If such functionality is not available in the Unicorn version of Horizon, management should consider insisting on user-specific access when upgrading to the next version of Horizon (likely to be the 'Symphony' ILS).</p>	<p>Agreed. Horizon currently supports user specific usernames and passwords, although HPL staff have not tested the feasibility of implementing this. Due to the way staff currently share the same circulation stations during busy periods, this has not been identified as a priority.</p> <p>Different logins will be implemented at circulation service points as an interim step in 2008. As part of planning for the migration to a new system, we will ensure individual logins are incorporated with that migration.</p>
2.	<p>The Electronic Services section that is responsible for changing the Horizon password does not appear to have a structured schedule that ensures that passwords are changed on a regular basis. The shared password has remained unchanged for close to seven months, having been last changed at the beginning of March 2007. The risk associated with shared passwords outlined in (1) above is compounded when the same passwords are used for extended periods of time.</p> <p>Further, new passwords are communicated to staff through unencrypted e-mails and faxes. The process may not be secure as the password could be received or viewed by unintended recipients, exposing the circulation system and patrons' personal information to the risk of unauthorized access.</p>	<p>That management request Sirsi-Dynix to configure Horizon to prompt users for periodic password changes. If the system does not have the functionality for automated password prompts, Electronic Services should develop a schedule that ensures that passwords are changed regularly.</p> <p>That, in addition to switching to user specific passwords recommended in (1) above, the responsibility for managing personal passwords be placed on individual users to enhance password privacy and security.</p>	<p>Not practical. Horizon currently supports user automated password prompts although these would need to be implemented in conjunction with individual usernames and passwords (see item 1). Because staff share and will continue the share logins until a new system is implemented, automated password changes are not currently practical.</p> <p>Not practical. It should be noted that while passwords are distributed unencrypted to staff there are two factors that greatly limit the risk of someone gaining unauthorized access. The first is the computer requires the current version of the Horizon client installed on the machine and the second is machine must log onto the network.</p>

#	OBSERVATION OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
3.	<p>The lowest level of staff access to the circulation system allows users an unlimited capability to process circulation related transactions. For example, Horizon does not place limits on the amount or the number of times circulation staff can waive fines or process fine overrides. In addition, the system does not require staff to input their identification or reasons for waiving the fines.</p> <p>Administrative procedures require that waivers for delinquent accounts that have been handed over for collection be processed only by the Manager of Circulation and Customer Services. As Horizon is not configured to restrict the processing of such transactions to the Manager, staff could process waivers for patrons whose accounts have been handed over. Due to the use of generic usernames and passwords, it was not possible during the audit to determine whether waivers for such accounts had been performed by persons other than the designated Manager.</p> <p>With an unlimited capability to waive fines and debt collection fees from delinquent accounts, the potential for misuse is increased and the library's ability to maintain a cash neutral debt collection contract may be impacted.</p>	<p>That system access privileges granted to circulation staff be reviewed and made consistent with the level of their responsibilities.</p> <p>That a requirement to input staff identification and reasons for processing waivers be implemented.</p>	<p>Agreed (in principle). Horizon supports different security levels including giving supervisors different levels of access to staff. It supports, for example, limiting access menus such as the Circulation Waiver Menu. While the system supports these restrictions, they will have to be investigated and reviewed for potential public service impacts that could create barriers to the use of the library. Investigation and review to be completed by the end of 2<sup>nd</sup> quarter 2008.</p> <p>Agreed. Current procedures around fines collection and waiving of fines will be reviewed to determine the best way to ensure individual staff are accountable for waiving of fines. This would include updated procedures and training to staff to ensure a reason is given and the staff identified. Updated procedures to be completed and training of staff to be started by end of 2<sup>nd</sup> quarter 2008.</p>
4.	<p><b>Cash Handling Processes</b></p> <p>Twenty (20) of the library's 24 branches use a non-sequentially, pre-numbered, hand-written Daily Cash Sheet as the primary cash receipt record. Upon receiving funds, staff indicate the revenue into appropriate columns on the Daily Cash Sheet and, at the end of the day, cash on hand is verified against the total on the sheet. Fairly consistently, cash on hand exceeds amounts recorded on the Daily Cash Sheet as staff sometimes forgets to update the sheet with amounts received. For this reason, the reliability of the Daily Cash Sheet as a mechanism for recording and controlling cash receipts is compromised. In addition, being a manual document onto which entries are sometimes entered by erasable pencil, amounts recorded on the Daily Cash Sheet are susceptible to manipulation.</p> <p>A review of records from the other four branches which use cash registers showed cash discrepancies to be significantly lower than for branches using the manual system. In a month, one branch showed a cash surplus of \$304, representing about 25% of revenues recorded on the Daily Cash Sheet for that month. Shortages and surpluses are recorded in the fine revenues account.</p>	<p>That management consider automating the cash receipting process for locations that receive reasonably large amounts of cash in order to improve the reliability and accuracy of amounts reported. The cost of installing cash registers at these locations should be weighed against the benefits of increased security and information reliability and a possible increase in reported revenues.</p> <p>Due to fiscal constraints, a staged implementation may be considered starting with branches with the higher cash receipts.</p>	<p>Agreed. A review will be undertaken and cash registers will be installed at those branches where the volume of cash receipts justifies installation by the end of the 1<sup>st</sup> quarter of 2008.</p>

**LIBRARY FINES AND OTHER REVENUES  
OCTOBER 2007**

Attachment #3  
DRAFT

#	OBSERVATION OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
5.	<p>Fines and circulation related fees received are not reconciled to reports from the Horizon circulation system. As such, there is no assurance that fines and fees received from patrons are recorded in the general ledger in their entirety. An analysis of these revenues for 2006 and 2007 showed that receipts reported in Horizon exceeded amounts recorded in the general ledger by \$52,606 and \$56,313 respectively, indicating possible cash shortages. Unreconciled cash shortages for individual branches ranged from 4% to 47% of amounts recorded in Horizon while bookmobiles reported even larger discrepancies that amounted to as much as 76% of amounts reported in Horizon.</p> <p>Staff stated that the differences noted do not necessarily indicate cash shortages as staff use the 'waive' and 'payment' functions interchangeably. As such, some amounts reported in Horizon as payments may actually have been waivers, reducing the reliability of Horizon reports. This practice may be due to staff's awareness that Horizon reports are not used for cash balancing.</p> <p>Without a reconciliation of cash to circulation records and an investigation of cash discrepancies, the completeness of circulation revenues cannot be assured.</p>	<p>That circulation related revenues be periodically reconciled to Horizon cash reports and that management develop dollar thresholds beyond which discrepancies are investigated.</p> <p>That management implement training programs to standardize the use of the Horizon system for payment processing and that staff be made aware that cash reports from Horizon will be used for cash balancing.</p>	<p>Agreed. The Horizon Fee Payment transaction log supports recording workstation, cash drawer or department for each transaction and generating reports. Further investigation will be done in the 1<sup>st</sup> quarter 2008 to determine how best to use these reports.</p> <p>Agreed. A weekly report will be developed in the 1<sup>st</sup> quarter 2008 using Horizon that will enable Managers to reconcile weekly cash receipts with Horizon fines collections. A training program involving staff that perform circulation transactions will be developed to ensure all staff know how to properly record transactions related to fines.</p>
6.	<p>Bookmobiles reported a large amount of waivers as compared to regular branches. While waivers for the branches average 8% of amounts collected, in the first six months of 2007, bookmobiles waived three and a half times (360%) more fines than they collected, waiving approximately \$3,300 in fines and collecting only \$915. In 2006, bookmobiles waived about \$6,300, almost as much as they collected. There is a risk that, if not checked, the unlimited capability to waive fines may be inappropriately used.</p> <p>Also, several instances were noted where patrons with fine balances greater than the borrowing ceiling of \$10 (\$5 for juveniles) were allowed to continue borrowing material from bookmobiles. The fines policy requires that borrowing privileges be suspended for patrons with balances greater than the borrowing ceiling.</p> <p>The above observations could be linked to the fact that PC Reliance, an offline database system used in bookmobiles, does not contain information about patrons' unpaid fine balances, thereby limiting staff's ability to enforce the policy.</p> <p>Patrons could take advantage of a lack of an up to date database in PC Reliance to check out material from bookmobiles and circumvent borrowing restrictions. The effectiveness of fines as a mechanism for managing the circulation process may be undermined.</p>	<p>That a requirement to input staff identification and reasons for waiving fines and other fees be implemented.</p> <p>That management immediately investigate the possibility of running a more comprehensive and up to date database in bookmobiles that contains information about patrons' blocks and fine balances.</p>	<p>Agreed. A review of current procedures around fines collection and waiving of fines will be undertaken by the end of the 2<sup>nd</sup> quarter 2008 to determine the best way to ensure individual staff are accountable for waiving of fines. This could include updated procedures for ensuring a reason is given and the staff initials are recorded</p> <p>Agreed. An offline system that resides on the Bookmobile would not be able to economically support a comprehensive and up to date database since it would have to include the entire patron database for the City.</p> <p>Previous attempts at wireless on line access for the Bookmobile did not prove to be reliable. However, staff will investigate in 2008 current available technology that would enable us to implement wireless access on the Bookmobile.</p>

#	OBSERVATION OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
7.	<p>Cheques received from patrons are not endorsed immediately upon receipt. Of particular note are donations received by branches in cheque form and forwarded to the Business Office by inter-office mail without restrictive endorsement. This practice exposes the cheques to the risk of interception and fraudulent negotiation.</p>	<p>That cheques be restrictively endorsed immediately upon receipt.</p>	<p>Agreed. Procedures will be implemented immediately requiring cheques to be restrictively endorsed on receipt.</p>
8.	<p><b>Collection Agency Contract</b></p> <p>Invoices from the collection agency are approved for payment without verifying billings against internally generated reports. Using a program called DebtCollect, the library electronically transmits requests for notices and placements to the collection agency on a daily and weekly basis respectively. As such, all notices and placements billed by the collection agency should agree to notice and placement requests recorded in DebtCollect. The verification of the agency's invoices should provide assurance about the validity of payments to the collection agency.</p> <p>Similarly, performance reports from the collection agency showing the value of material returned, payments received and waivers processed are not agreed to library records. Such details are electronically transmitted to the agency on a daily basis from the library's DebtCollect system.</p> <p>The requirement for the collection agency contract to be budget neutral was an important consideration when the contract was negotiated. Without independent verification, the reliability of the agency's reports may not be guaranteed and the cost effectiveness of the contract could be questioned. Using information currently contained in the collection agency's performance reports, the contract appeared to be more favourable than budget neutral, with payments to the agency amounting to 29% of the value of material returned and fines paid or waived.</p>	<p>That prior to their approval for payment, invoices from the collection agency be verified against summaries generated from the DebtCollect system. The reports from DebtCollect could be attached to the invoices as proof of verification.</p> <p>That information about payments, waivers and the value of material returned reported in monthly performance reports produced by the collection agency be verified against internally generated reports.</p> <p>That the debt collection contract be actively monitored to ensure it remains budget neutral.</p>	<p>Agreed. Staff will investigate, in the 1<sup>st</sup> quarter 2008, the reporting functionality in the Debt Collect module to ensure invoices received from the collection agency are accurate.</p> <p>Agreed. An investigation will be carried out, in the 1<sup>st</sup> quarter of 2008, to determine if additional reports can be generated to determine the accuracy of the collection agency's reports on payment.</p> <p>Agreed. The monthly statements are reviewed to ensure that budget neutrality is maintained.</p>
9.	<p>Security over daily and weekly electronic transfers of patrons' information to the US based collection agency needs to be improved. Information about patrons' identities, addresses and payments is not encrypted but is transmitted to the agency in plain text. Without encryption, the confidentiality of patrons information may not be guaranteed as patrons' information is exposed to the risk of unauthorised access and possible identity theft.</p> <p>Apart from the loss of public trust in the library's processes, the effects of identity theft on individual patrons' lives could be significant.</p>	<p>That library management explore the possibility of protecting patrons' data through data encryption or other forms of electronic security.</p>	<p>Agreed. The collection agency has not had a process by which data could be sent to them encrypted. However, at our request, the vendor has now provided the Library with software which will encrypt data that is sent to them electronically. Staff are in the process of testing the software and it will be implemented as soon as it is confirmed that it works with our system.</p>

#	OBSERVATION OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
10.	<p>It was noted that some services provided by the collection agency are not included in the contract and are based on a verbal agreement with the agency. For example, the mailing of past due and billing notices to patrons for which the library has paid over \$19,000 in the past eighteen months (over 30% of payments to the agency) is based on a verbal agreement. While the agency has been providing cost effective and timely service, management needs to ensure that the library's interests are protected and that arrangements with third parties are formalized by way of written and binding contracts.</p> <p>In addition, the existing agreement for placements does not provide for a mutually agreed upon rate adjustment formula in case of a fluctuation in the Canadian rate of exchange with the US dollar. This is especially important given the recent strengthening of the Canadian dollar against US currency. Such a formula would make it possible for management to pro-actively monitor price changes. Presently, the collection agency unilaterally decides when and by how much to adjust the placement billing rate.</p>	<p>That a comprehensive debt collection agreement be drawn up that will ensure that:</p> <ul style="list-style-type: none"> <li>▪ All services provided by the collection agency are incorporated into the agreement.</li> <li>▪ A rate adjustment formula that is responsive to currency fluctuations is negotiated or that the billing rate be set in US dollars.</li> </ul>	<p>Agreed. A review of the existing contract will be undertaken in the 1<sup>st</sup> quarter 2008 with a view to incorporate all services provided by the collection agency into the agreement and address currency fluctuations.</p>
11.	<p>According to collection reports received from the collection agency, about 20% of accounts handed over to the agency do not have the correct current address. This makes collection difficult and in many cases, improbable.</p> <p>Such errors have an unrecoverable cost component attached to them as the collection agency bills the library a \$14.80 fee for every balance handed over, whether information is correct or not.</p>	<p>That management put in place a process for periodically confirming patrons' addresses in Horizon to ensure that information handed over for collection is accurate.</p>	<p>Agreed. Currently, the system is set to request address checks once a year when patrons use our services.</p>
12.	<p><b>Photocopier and Copy Card Revenues</b></p> <p>There does not appear to be an adequate segregation of duties in the collection, recording and banking of photocopier revenues at the central library. The clerk responsible for collecting cash from the machines is also responsible for recording and banking the funds. Further, funds collected from the machines are not deposited intact and are often deposited more than a month after collection, after some of the funds have been used to provide loose float for the circulation desk.</p> <p>In addition, photocopier readings are not used to verify the completeness of funds collected.</p> <p>Similarly, readings taken from the Mini Till for the sale of copy cards are not reconciled to funds collected from the machines. The accuracy of amounts reported as copy card revenues can therefore not be independently verified.</p> <p>Although copier revenues have been steadily decreasing over the last few years and in total represent a very small part of the other revenues collected by the library (2006 - \$31,755), a simple reconciliation of the readings to funds collected would provide some assurance as to the completeness of the copier/copy card revenues recorded.</p>	<p>That, in order to compensate for a lack of segregation of duties in the cash collection process and to provide assurance about the completeness of funds recorded, readings taken from coin operated photocopier and Mini Till machines be reconciled to funds collected.</p>	<p>Agreed. A procedure will be implemented by the end of the 1<sup>st</sup> quarter 2008 that will require readings from coin operated photocopiers and Mini Till machines to be reconciled to funds collected.</p>

**LIBRARY FINES AND OTHER REVENUES  
OCTOBER 2007**

Attachment #3  
DRAFT

#	OBSERVATION OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
13.	<p><b><u>Performance Measures</u></b> Key performance indicators related to the operation of individual branches and the billing and collection of fines and other revenues are not presented to senior or local branch management. The performance of individual branches with respect to fines levied, collected and waived as well as information about delinquent patrons is never formally reviewed by management for the purpose of evaluating the performance of individual branches or assessing the efficiency and effectiveness of cash collection processes.</p> <p>Without formalized performance measures for branches and other functional areas, there is a risk that operational inefficiencies will remain undetected which may affect the library's ability to provide high quality public service.</p>	<p>That management consider introducing the following performance measures:</p> <ul style="list-style-type: none"> <li>▪ Fine waivers above certain established limits</li> <li>▪ Fines waived by branch (number and dollar)</li> <li>▪ Fine waivers by staff identification</li> <li>▪ Delinquent accounts handed over by branch</li> <li>▪ Fines waived as a percentage of billings</li> </ul>	<p>Agreed. The collection of various performance measures data will be investigated in 2008.</p>

ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them as necessary.

1. Contrary to the Cash Responsibilities policy, cash discrepancies are not reported to the Branch Manager nor are an Incident Report completed when cash shortages or surpluses occur. Internal Audit established that every branch reports cash surpluses or shortages on a daily basis and that staff may not be reporting the discrepancies due to their regularity and at times, their immateriality.

***It is recommended:***

***That management review the incidence of cash surpluses and shortages and establish a threshold for reporting discrepancies to the branch manager.***

***Management Response:***

***Agreed. Branch Managers will be required to review the Daily Cash Sheets and initial the Branch Cash Reports effective in the 1<sup>st</sup> quarter 2008.***

2. The Room Rentals policy requires that room rentals be paid for in advance. While the majority of rentals reviewed were paid for on or before the event date, a review of 2006 and 2007 invoices indicated that some clients used library facilities before making payment. At the end of September 2007, nine invoices remained unpaid for events that had already been held, some of them as far back as February and July 2006.

***It is recommended:***

***That the Library's security staff obtain proof of payment prior to granting room access for library facilities to rental customers.***

***Management Response:***

***Disagreed. The Room Rentals policy states that room rentals "should" be paid in advance but do not make it mandatory. Most of our room bookings are to community groups and mandating payment in advance would restrict access to meeting space by some of the groups. Room booking requests for groups that have not paid in the past are denied. Staff will review the monitoring procedure in 2008 for unpaid room rentals.***

3. Each branch is issued with a stock of sequentially pre numbered deposit slips that also bear the branch's unique deposit slip number. Deposits are supposed to be made in accordance with the sequential numbering on the deposit slips to facilitate the monitoring of deposits. Three of the nine branches selected by Internal Audit did not complete documentation in the order of the sequential numbering on the bank deposit slips, making it difficult to establish the completeness of deposits.

***It is recommended:***

***That the Business Office conduct periodic training sessions for branch personnel that have cash handling responsibilities to ensure that the deposit process is standardized across all library branches.***

***Management Response:***

***Agreed. The existing cash handling training program for branch personnel will be reviewed and standardized across all library branches. This will be co-ordinated with the review of procedures around fine collection to be undertaken in the 2<sup>nd</sup> quarter 2008.***



CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2007-10  
LIBRARY FINES AND OTHER REVENUES

Attachment #3

DRAFT

4. The following observations were noted during visits to two of the library's 24 branches:

- a) At one branch, cash is not reconciled to Daily Cash Sheets on a daily basis, resulting in differences accumulating for the two week period and being reported on the day of banking. Cash differences for the period can therefore not be attributed to a particular day, making it difficult to investigate the cause of the difference. Also, it does not appear that cash differences are reported to the Branch manager as required by policy.

***It is recommended:***

***That Daily Cash Sheets be reconciled to cash on hand on a daily basis and that variances be reported to the Branch Manager and investigated.***

***Management response:***

***Agreed. Staff will be instructed to reconcile Daily Cash Sheets to cash on hand on a daily basis and Branch Managers will be required to review the daily cash sheets and initial the Branch Cash Reports effective in 2008.***

- b) Daily Cash Sheets are sometimes written in pencil, exposing them to the risk of manipulation.  
and
- c) At one branch, cash is kept in a drawer at the front desk overnight instead of being stored in a locker located outside public view.

***It is recommended:***

***That the Business Office and branch management conduct training to ensure that staff with cash handling responsibilities comply with policies and procedures.***

***Management response:***

***Agreed. The existing cash handling training program for branch personnel will be reviewed and standardized across all library branches. This will be co-ordinated with the review of procedures around fine collection to be undertaken in the 2<sup>nd</sup> quarter 2008.***

***Staff will be instructed immediately that Daily Cash Sheets are to be written in ink.***

***A review of how cash is stored overnight at the branches will be undertaken in the 1<sup>st</sup> quarter 2008 to ensure that cash is appropriately protected.***

- d) At one branch, room rentals are billed for one four hour period regardless of the duration of the rental. For example, none of the sampled bookings were billed for more than one four-hour period, despite the fact that some of them had used the facility for an entire day.

***It is recommended:***

***That branch management ensure that staff comply with the library's policies and procedures regarding room rentals.***

***Management response:***

***Agreed. Room rental policies and procedures will be reviewed with Branch Managers by the end of 2007.***