Audit of The Milwaukee Public Library Expenditures

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September 13, 2013

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the Milwaukee Public Library Expenditures. The objectives of the audit were to evaluate the adequacy of controls over expenditure processes, the purchasing processes, and the reconciliation procedures, and to evaluate the timeliness and the accuracy of the recording of expenditures into the City's general ledger.

The Milwaukee Public Library has defined procedures for processing invoices and recording expenditures in the City's general ledger. The audit determined that there are opportunities for improvement in the processes and controls over expenditures. This audit makes three recommendations and one observation to ensure that there are proper controls in place.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by the Milwaukee Public Library's management response.

Appreciation is expressed for the cooperation extended to the auditors by the staff and management of Milwaukee Public Library.

Sincerely,

Aycha Sirvanci, CPA
Audit Manager

AS:pad

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I. Audit Scope and Objectives

The audit examined the procedures and controls over the expenditures processed by the Business Office and the Acquisitions Section of the Milwaukee Public Library. The audit included all vouchers created by the Milwaukee Public Library for the period January 1, 2012 through April 30, 2013. The audit included interviews of Business Office and Acquisitions Section staff that process expenditures. The audit also included a review of instructions and vouchers created by the staff of the Business Office and Acquisitions Section. Information was extracted from the City's accounting system, the Financial Management Information System (FMIS), for sampling and verification to source documentation obtained from eVault, the City's record retention system, and the Milwaukee Public Library's records. The Audit Division believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The Millennium system stores bibliographic information on books and other materials, records circulation transactions and stores information on library card users. The Millennium system is also used to order library materials and process invoices by the Acquisitions Section. The audit did not include an independent review of the system controls of the Millennium system. This system is owned and operated by the Milwaukee County Federated Library System (MCFLS). Transaction testing did not rely on the system; therefore, this was not a consideration.

The scope of this audit excluded all vouchers and supporting documentation for any capital assets, any grants and any inter-governmental and intra-governmental expenditures for the period January 1, 2012 through April 30, 2013.

The objectives of the audit were to:

- Evaluate the adequacy of controls over - expenditure processes, the purchasing processes, and the reconciliation procedures.
- Evaluate timeliness and accuracy of the recording of expenditures into the City's general ledger.

II. Organization and Fiscal Impact

The Milwaukee Public Library was founded in 1878, when the State Legislature authorized the City to establish a public library. Currently, the Milwaukee Public Library consists of the Central Library and 12 neighborhood or branch libraries. The Milwaukee Public Library is a department of the City of Milwaukee. The Library Director, who is the department head, is appointed by the Mayor and sits on the Mayor's cabinet.

"The general management, regulation and control of the library shall be vested in a Board of Trustees...," read the bylaws of the Board. There are 12 members of the Board of Trustees. Five citizen members and three alderpersons are appointed by the Mayor, and one citizen by the President of the Common Council. Also serving are the Superintendent of the Milwaukee Public Schools and the President of the Board of School Directors, or their designees, and a representative of the Milwaukee County Board of Supervisors, appointed by the County Executive. The board meets nine times per year, usually at the Central Library. Chapter 43 of the Wisconsin Statues governs libraries.

The Milwaukee Public Library is a member of the Milwaukee County Federated Library System (MCFLS), as are the other 14 public libraries in the County. Financed by state funds, the federated system coordinates specific joint services, such as the Millennium computer system. A seven – member Board of Trustees governs MCFLS. All members are nominated by the County Executive and approved by the County Board. MCFLS functions as a membership organization made up of the 15 administratively autonomous and fiscally independent public libraries in Milwaukee County. These public libraries join MCFLS voluntarily and renew their membership periodically by signing a membership agreement.

The Accounts Payable (AP) Section of the Milwaukee Public Library is responsible for processing invoices for goods and services provided to support library operations. This area is staffed by two employees. The Acquisitions Section of the Milwaukee Public Library is responsible for placing orders for library materials selected by designated librarians, receiving

the orders when delivered, and processing the invoices and control group registers. The Acquisitions Section sends the completed voucher groups to the Business Office for approval. The Business Office forwards the voucher groups to the Comptroller's Office. This area is staffed by ten employees. For the period January 1, 2012 through April 30, 2013, both sections processed 9,474 invoices for an amount totaling $8,188,059.

III. Audit Conclusions and Recommendations

The internal control system is crucial in processing expenditures. Internal controls are essential to discourage the misuse and abuse of the Accounts Payable function by City employees and vendors. Internal controls are also designed to safeguard and protect employees by defining the responsibilities of all parties involved in the program. Appropriate controls ensure proper segregation of duties.

Appropriate segregation of duties ensures no one person initiates the transaction, approves the transaction, records the transaction, reconciles balances, and reviews reports. Proper segregation of duties also prevents fraud or error by one person. It appears that the segregation of duties configuration is appropriately designed for the expenditure processing at the Milwaukee Public Library.

Authorization of transactions is another key control which consists of the review of particular transactions by appropriate personnel in order to prevent improper use of organizational resources. An example of appropriate authorization includes the approval of invoices by Department Managers or the Business Operations Manager and the review of control group registers by the General Accounting Manager. The audit determined that appropriate personnel have been designated to authorize transactions.

However, there are opportunities for improvement over the processes and controls for accounts payable in the Milwaukee Public Library. This audit makes three recommendations to improve controls.

1. Management should strive to expedite the processing of invoices.;
2. Management should clarify the policies and procedures manual to reflect their invoice approval process;
3. The General Accounting Manager or designated individual should sign the control group registers.

This report also identifies one observation over approval of vouchers. An observation may not constitute a recommendation, but should be taken under advisement.

1. The use of the Library Director's signature stamp on the control group registers should be discontinued.

Details for each recommendation and observation are provided in the following sections.

A. Invoice Processing

Invoices are received in the General Accounting Section of the Milwaukee Public Library. The invoices are distributed to the various departments for the manager to review and approve. The department managers return the approved invoice to the General Accounting Section. The General Accounting Section creates a voucher group to enter the invoices into FMIS. The control group register is reviewed by the General Accounting Manager. The control group register is approved by management of the Milwaukee Public Library.

During invoice testing, the audit found that some invoices processed by the General Accounting Section of the Milwaukee Public Library were over the 30 day limit.

Recommendation 1: Management should strive to expedite the processing of invoices.
When developing the policy, management should take into consideration:

- The time it takes the processed invoices to travel from the Central Library to the Comptroller's Office;
- Time for the Comptroller's Office to perform processes to release invoices to be paid;

Taking these items into consideration will ensure that payments to vendors are made within the 30 day limit (with a 15 day grace period) per the City's Prompt Payment Policy, and also to avoid interest payments to vendors.

During the walkthrough of invoice processing in the General Accounting Section, the auditors observed that the invoices for items purchased by the Fleet and Facilities Departments were approved by the individual department managers. After which, the Business Operations Manager reviewed and approved the invoice. The auditors found this procedure to be consistent with the internal procedures of the General Accounting Section. However, the results of the approvals testing demonstrated that Fleet and Facilities invoices were processed inconsistently, some with and some without the approval of the Business Operations Manager.

Recommendation 2: Management should clarify the policies and procedures manual to reflect their invoice approval process.

The policies and manual should be consistent with the processes performed.

B. Control Group Register Processing

A voucher group is created before invoices are entered into FMIS. A control group register is a report that is generated listing all invoices entered under the control group. Each control group register is approved by two individuals from each department. The control group register ensures vouchers are entered correctly, contains no more than 20 invoices, which are of similar type.

During the walkthrough of voucher group processing in the General Accounting Section, the auditors were shown that the control group registers were initialed by the General Accounting Manager after the control group registers were reviewed. The auditors found this procedure to be consistent with the internal procedures of the General Accounting Section. However, the results of the control group register testing demonstrated that numerous control group registers were not initialed by the General Accounting Manager, thus indicating that the review had not been performed.

Recommendation 3: The General Accounting Manager or designated individual should sign the control group registers.

The control group registers require two approval signatures to authorize payment of the invoices attached to it. Since the review of the voucher group register is performed by the General Accounting Manager, it would be more appropriate for the General Accounting Manager to be the first approving signature on the voucher group register. The General Accounting Manager's signature would replace the initialing of the control group voucher. Another individual would be designated to approve voucher group registers if the General Accounting Manager is unavailable. Therefore, the Business Operations Manager would become the second approval signature on the control group register, instead of the first approval signature.

C. Observations

The following are observations noted during the audit that may not constitute a recommendation; however, the Milwaukee Public Library Management should take these items under advisement.

Observation 1: The use of the Library Director's signature stamp on the control group registers should be discontinued.

The audit determined that the control group registers are being stamped with the Library Director's signature stamp, by an Accounting Assistant, without being reviewed by the Library Director.

The General Accounting Section of the Office of the Comptroller is in the process of revising the policy of allowing the use of a signature stamp on the control group register.

MILWAUKEE
PUBLIC LIBRARY

Paula A. Kiely
Director

September 10, 2013

TO: Martin Matson, Comptroller

FROM: Paula A. Kiely, Director

RE: 2013 ~~Cash~~ A/P Controls Audit Recommendations

We have received the report summarizing the audit of expenditures for the Milwaukee Public Library performed by your office. We have reviewed the audit and have the following responses to the recommendations.

Recommendation 1: Management should strive to expedite the processing of invoices.

MPL management agrees that it is important to expedite processing invoices within the city prompt payment timeframe of 30 days. We meet this timeline in most cases, although there are instances when invoices are held to verify documentation. To ensure prompt payment, vouchers are hand-delivered to the Comptroller's Office the day after preparation by our driver on Monday – Friday. There may be instances that invoice processing is delayed due to internal lags. The Business Office does and will continue to work with managers to ensure that invoices are approved and returned for processing in a timely manner.

Recommendation2: Management should clarify the policies and procedures manual to reflect their invoice approval process.

The MPL procedure outlines how invoices are processed. The first step under "Mail" lists the units that invoices are routed to for managerial approval. It identifies Building and Grounds as one of the units and the Library Business Operations Manager as approver for C or contract invoices. The second step states where the approved invoices are placed when returned to the Business Office. It does not say that another approval is required. The auditors found the language confusing so we will adjust it accordingly.

814 W. Wisconsin Ave. • Milwaukee, WI 53233 • 414-286-3020

Mail

- Stamp all invoices with current date and route appropriately
  - Invoices with a "Q"on Office Assistant III's desk
  - Invoices with an "S" route to appropriate staff using the Service Order database
  - Invoices with a "C" place in Library Business Operations Manager's basket
  - Building and Grounds invoices
  - Automation
  - [redacted]
  - [redacted]
  - Book or subscription invoices
  - Utility Bills
- Invoices approved to be paid
  - Invoices returned by Buildings and Grounds – place in BOM basket
  - Invoices to be paid with Capital Project funds
  - Invoices to be paid with Grants

Recommendation 3: The General Accounting Manager or designated individual should sign the control group registers.

The Account Clerk III prepares the control group registers and enters into FMIS. The General Accounting Manager initials the voucher after double checking the account numbers used for the individual vouchers. When the General Accounting Manager is on vacation or out of the office for an extended period of time payments continue to be processed but the Account Clerk III does the review of the account numbers. The Account Clerk III has begun to initial the control group registers to show her review during these absences.

The current Comptroller's procedure requires two signatures, one of which must be original. We will continue to follow this procedure until the Comptroller's Office revises it.

Observation 1: The use of the Library Director's signature stamp on the control group registers should be discontinued.

We are following the current Comptroller's procedure. Upon receipt of revised procedures from the Comptroller's Office we will adjust accordingly.