



Sacramento Public Library Authority

May 28, 2009

Agenda Item 6.04 : Audited Financial Statements
FY 2007/08

TO: Sacramento Public Library Authority Board Members

FROM: Vicki Johnson, Director of Finance

RE: FY 2007/08 Audited Financial Statements

RECOMMENDED ACTIONS:

1. **Accept** the recommendation of the Authority Budget-Audit Committee to accept the Independent Auditor's Report, Financial Statements, Required Supplementary Information, and Supplemental Schedules for the Sacramento Public Library Authority, for the Fiscal Year Ended June 30, 2008.

INFORMATION

According to the Joint Powers Agreement, the Library Authority shall cause an independent audit of the Authority finances to be made by a certified public accountant or public accountant in accordance with Section 6505 of the Government Code.

Management is pleased to report that the independent financial audit associated with fiscal year ending June 30, 2008, has been satisfactorily completed and auditor statements and opinions are contained in the 2008 Audit Report (see Exhibit A).

Independent auditors met with the Budget-Audit Committee on May 20, 2009, to provide a summary of required communications and discuss issues associated with the audit. Primary issues discussed in the auditor's summary included delays in providing schedules, upcoming changes related to the capitalization of books and materials, and the status of implementation of internal control policies and procedures. Related to retiree benefits, the auditors included a discussion of GASB 45 requirements associated with the disclosure and recognition of liability or expense for other post employee benefits and the accounting estimates associated with the SCERS liability.

Delays associated with the audit were almost entirely related to time constraints of wrapping up three financial audits within one fiscal year, which delayed the commencement of 2008 fieldwork rather than process deficiencies associated with closing the books. Staff is pleased to report that account reconciliations are up to date and adjusting entries associated with fiscal year 2008 were completed prior to the commencement of 2008 fieldwork. The Authority is now operating from a single trial balance and the 2009 financial audit is on track with interim fieldwork scheduled for June 2009.



Books and materials have been identified as costs that should be capitalized according to GASB standards. Individually the cost of books and materials does not meet the threshold for capitalization, but collectively they are a primary asset of the Authority. The auditors are preparing an audit program to identify and review processes associated with the additions, deletions, depreciation and inventory of books and materials. In 2009, the Authority will begin capitalizing books and materials.

To satisfy GASB 45 requirements, staff recorded a long term liability, net of current retiree benefit costs, to recognize the annual required contribution associated with other post employment benefits (OPEB). The additional liability for fiscal year 2008 was \$212,000. Staff is developing a longer term solution for handling other post employment benefits, which will be brought before the Board at a future date.

Staff estimates that by the end of fiscal year 2009, the outstanding liability for Authority employees previously associated with SCERS will be resolved and paid from County Fund 11.

Management Letters - Fiscal Years 2007 and 2008

All of the issues associated with the 2007 Management Letter (Attachment A) have either been completed or are being addressed within the Library's Internal Assessment and status is being reported in the monthly Director's Report to the Board.

As of this report, the Management Letter for fiscal year 2008 has not been received. The 2008 letter will be forwarded to the Budget-Audit Committee with management's response before the July 2009 Board Meeting.

Fund Balances Fiscal Year 2008

The Library General Fund is a consolidation of the Library's jurisdictional funds: Shared Cost Fund, County/Cities Fund, Sacramento City Fund, and Sacramento Special Tax fund.

Financial activities as of June 30, 2008, increased general fund balance by \$5,027,385 resulting in a total fund balance of \$23,675,685. After allocation of shared costs, changes to jurisdictional fund balances due to 2008 financial activities are stated below. The Shared Fund retained \$427,724 in fund balance as reserves for unspent purpose-restricted donations of \$115,183 and for encumbrances of \$312,541. A Reserve for Economic Uncertainty of \$1,787,774 was approved by resolution of the Board on September 27, 2007, with the adoption of the September final budget for fiscal year 2007/2008. Increases in fund balance were largely due to growth in County Fund 11 property tax revenues and Sacramento City revenues.



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Comparison of Actual Revenue Year-ended June 30, 2008 versus 2007

	Shared Cost ⁽¹⁾	County/ Cities	Sacramento City	City Special Tax	Total
Revenue - 2008	602,334	21,747,238	10,407,739	4,147,217	36,904,527
Revenue - 2007	1,023,526	20,175,750	10,067,314	4,228,440	35,495,029
Change in Revenue	(421,192)	1,571,488	340,425	(81,223)	1,409,498
Change %	(41%)	8%	3%	(2%)	4%

⁽¹⁾ Inclusive of the Grants Fund

In fiscal year 2008, the Library's revenues grew by \$1,409,498, a 4% increase over the prior year. The increase was primarily due to growth in the County's Fund 11 property tax revenues and Sacramento City revenues. An additional distribution of \$139,770 associated with 2008 City Special Tax was received after the accounting cutoff date and was recognized in fiscal year 2009.

Comparison of Actual Expenditures Year-ended June 30, 2008 versus 2007

	Shared Cost ⁽¹⁾	County/ Cities	Sacramento City	City Special Tax	Total
Expenditure - 2008	291,488	17,770,224	10,208,647	3,606,782	31,877,141
Expenditure - 2007	906,646	16,170,051	9,807,170	3,095,713	29,979,580
Change in Exp - inc/(dec.)	(615,158)	1,600,173	401,477	511,069	1,897,561
Change in Exp - %age - inc/(dec.)	(68%)	10%	4%	17%	6%

⁽¹⁾ Inclusive of the Grants Fund

Overall, actual expenditures increased by \$1,897,561, 6% over the prior year primarily due to increases in salary related costs. Services and supplies costs declined by \$417,285 in fiscal year 2008. Total expenditures of \$31,877,141 were significantly less than the approved budgeted expenditures of \$36,232,076. Significant savings were recognized due to position vacancies and reductions in outside services and capital outlay.

ATTACHMENTS

Exhibit A: Independent Auditor's Reports, Financial Statements, Required Supplementary Information, and Supplemental Schedules for the Sacramento Public Library Authority for the Fiscal Year Ended June 30, 2008 **(TO BE PROVIDED)**

Attachment A: Management Letter – Fiscal Year 2006/2007

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board Members of the
Sacramento Public Library Authority
Sacramento, California

We have audited the financial statements of the Sacramento Public Library Authority (the Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. In addition, we considered the contents of the 2007-2008 Sacramento County Grand Jury report entitled "The Business of Books" dated May 14, 2008, and the contents of the "Sacramento County Public Library Authority's Response to Grand Jury Report Entitled 'The Business of Books'" dated August 6, 2008. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be

prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2007-1 through 2007-8 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-7 to be material weaknesses when considered in the aggregate.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board Members and management and is not intended to be and should not be used by anyone other than these specified parties.

Sacramento, California
March 18, 2009

Sacramento Public Library Authority

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2007

Finding 2007-1

Condition:

According to discussions with Authority management, not all branches are performing daily cash balancing. Additionally, the cash balancing documents are not being forwarded to the main office. At one of the branches, at least nine people had the combination to the safe where the cash bag is kept, and the personnel did not safeguard their copies of the written down combination.

Criteria:

Sound internal controls mitigate the ability to misappropriate assets.

Effect:

The procedures performed at the branches for cash handling are inconsistent. In one case, a branch came up short by \$1,200 one day after the branch's cash bag was received by the finance department.

Cause:

The written policies and procedures over cash handling are incomplete.

Recommendation:

Written policies and procedures over cash handling should be completed and disseminated to all the branches.

View of Responsible Officials:

Management concurs with this recommendation and is pleased to report that new cash handling policies and procedures were fully implemented in February 2009 (Policy No. 710, Financial Policies and Procedures Manual). Staff received training associated with the new cash handling procedures and is forwarding cash reconciliations and associated documentation to the Finance Department regularly.

All branches are now equipped with cash registers and new secured dual compartment safes with drop slots for daily deposits. Staff has received instruction on appropriate controls, including separation of duties, associated with the cash registers, management of safe access,

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

cash reconciliation, general cash handling, and preparation of the bank deposit. Additionally, the Library has contracted an armored courier service to transfer deposits directly to the bank.

Finding 2007-2

Condition:

According to discussions with Authority management and review of the Grand Jury Report, during 2007, facility service requests from the branches were not being reviewed and approved on a regular basis. Additionally, company credit card usage was not being monitored.

Criteria:

Sound internal controls mitigate the ability to misappropriate assets.

Effect:

During 2007, instances of personal use of company credit cards were identified. Additionally, allegations were made that the cost of facilities work performed was exaggerated.

Cause:

The policies and procedures over procurement and credit card usage were inconsistently implemented.

Recommendation:

Updated written policies and procedures over procurement and credit card usage have already been completed and disseminated to all the branches. Management should continue to monitor the service request process and credit card usage for appropriate implementation of the policies and procedures.

View of Responsible Officials:

Management concurs with these recommendations and will continue to monitor the service request process and credit card usage associated with procurement.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Finding 2007-3

Condition:

According to discussions with Authority management, there is no segregation of duties for renting out the Galleria facility. There is one person writing the contracts, requesting payments from the main office for deposit returns, and putting the receipt information in the system for posting. Another person actually posts the information, but this is done without review. Additionally, the requests for payments to vendors are internal memos from the Galleria; there are no outside invoices requesting payment.

Criteria:

Sound internal controls mitigate the ability to misappropriate assets.

Effect:

If assets have been misappropriated, the normal course of employees performing their assigned functions would not detect it.

Cause:

The policies and procedures for renting out the Galleria facility are poorly designed.

Recommendation:

We recommend that the policies and procedures for renting out the Galleria facility be revised to adequately separate the duties so that one person does not have responsibility for custody of assets, authorization of transactions, and record-keeping responsibilities. When duties cannot be separated, compensating controls should be implemented.

View of Responsible Officials:

Management concurs with this recommendation and will work with Galleria staff to establish appropriate controls, including separation of duties, for financial functions performed by the Galleria.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Finding 2007-4

Condition:

During 2007, account reconciliations, analyses, and other support for major financial statement line items were not finalized in a timely manner. This condition was noted in the previous audit as a finding; see prior year Finding No. 1.

Criteria:

Ability to produce accurate financial data in accordance with accounting principles generally accepted in the United States of America.

Effect:

The Authority had to post a significant number of journal entries subsequent to year end.

Cause:

Turnover of accounting staff and insufficient staffing caused certain processes to be bypassed. Additionally, written accounting policies and procedures are incomplete.

Recommendation:

We recommend that the Authority ensure its accounting closing processes are implemented as designed.

View of Responsible Officials:

Management concurs with this recommendation, which is carried forward in part from recommendations of 2006. Financial policies for monthly, quarterly, and annual closing processes have been developed and core functions are in place. There are several processes related to new technologies and improvements to allocation methods which are being developed and, in some cases, require additional staff training. Finance is on track for completing these processes by June 30, 2009.

In addition, all account reconciliations for FY 2008 were completed before fieldwork began. All analyses and other requested support are expected to be provided to the auditors in a timely fashion.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Finding 2007-5

Condition:

During 2007, according to discussions with Authority management, the processing of cash disbursements was backlogged and transactions were not being reviewed by a person other than the one initiating and processing the transactions. This condition was noted in the previous audit as a finding; see prior year Finding No. 2.

Criteria:

Sound internal controls mitigate the ability to misappropriate assets.

Effect:

If assets have been misappropriated, the normal course of employees performing their assigned functions would not detect it.

Cause:

Turnover of accounting staff and insufficient staffing caused certain processes to be bypassed. Additionally, written accounting policies and procedures are incomplete.

Recommendation:

We recommend that the Authority ensure its staffing size is adequate and that the new accounting policies and procedures, when finalized, are implemented as designed.

View of Responsible Officials:

Management concurs with the recommendation that timely review of cash disbursements is important and is pleased to report that review processes initiated during 2008 fiscal year have alleviated this problem. There is an assigned supervisor who fulfills this function and two backups as needed.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Finding 2007-6

Condition:

The Authority's written accounting policies and procedures are incomplete. This condition was noted in the previous audit as a finding; see prior year Finding No. 3.

Criteria:

Sound internal controls mitigate the ability to misappropriate assets.

Effect:

The lack of completed written policies and procedures for accounting may have contributed to other conditions noted in this report. Additionally, inconsistent procedures may be applied to accounting processes until the policies and procedures are formalized and implemented.

Cause:

Turnover of accounting staff and insufficient staffing have contributed to the delay in finalizing the written policies and procedures.

Recommendation:

We recommend that the Authority finalize and implement its written accounting policies and procedures.

View of Responsible Officials:

Management concurs with the recommendation of finalizing and implementing written policies and procedures. In the 2006 follow up, management stated in part or in whole the following:

In January 2009, staff presented to the Board a list of issues as a result of its own Internal Assessment, which included the need to establish comprehensive system-wide policy and procedures manuals to assist in Authority operations. The manuals are targeted to be in place by June 2009 and to be completed by June 2010.

Significant inroads have been made in the documentation and implementation financial policies and procedures. During fiscal year 2009 the Authority Board received and accepted

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

the following for which training has commenced and is ongoing: Internal Control Policy and Procedures, Contracts and Procurement Policy, Library Branch Cash Handling Policy and Procedures, Review and Approval of Processed Payroll Policy and Procedures, a revised Investment Policy, Travel Policy and Procedures, and Monthly, Quarterly, and Annual Closing Policy and Procedures.

Finding 2007-7

Condition:

The Authority does not capitalize its library books and materials.

Criteria:

Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, issued by the Governmental Accounting Standards Board, specifically Questions and Answers section, question 26:

“26. Q - Are library books depreciable capital assets?

A - If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods...may be appropriate...”

Effect:

The statement of net assets does not include the net value of library books and materials.

Cause:

The Authority’s capitalization policy states that library books and materials are to be expensed.

Recommendation:

We recommend that management determine the basis value of its library books and materials, and record as depreciable assets.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

View of Responsible Officials:

Management concurs with the recommendation and will capitalize books and materials effective July 1, 2008.

Finding 2007-8

Condition:

According to discussions with Authority management and review of the Grand Jury Report, outstanding customer amounts owed are not recorded as accounts receivable in the financial records.

Criteria:

Accounting principles generally accepted in the United States of America.

Effect:

As of the date of this report, the outstanding customer amounts owed and the collectible amounts cannot be readily estimated. As such, should the amount of outstanding customer amounts owed be estimated and carried as accounts receivable, it is likely that 100% of the amount would be reserved as uncollectible. The net amount for financial statement purposes would in turn be \$0. Therefore, there would be no material effect on the financial statements by not recording the amounts as accounts receivable.

Cause:

Management is unclear on the required treatment for outstanding customer amounts owed.

Recommendation:

We recommend that management determine a reasonable method for estimating the outstanding customer amounts owed and record the amount as accounts receivable, and book a corresponding allowance for the amount considered to be uncollectible.

View of Responsible Officials:

Management concurs with the recommendation to determine a reasonable method for estimating the outstanding customer amounts owed. More recent aging reports indicate there

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

are outstanding balances greater than 4 years which likely will never be collectible. Since management has historically taken the position that outstanding fees are not available resources and therefore not recognized, this outstanding balance has not previously been addressed. A policy for dealing with these balances is being developed.

Management will continue working with auditors to determine a reasonable estimate of customer amounts owed.

Status of Prior Year Recommendations

Finding No. 1

Status:

This condition still existed during the audit for the fiscal year ending June 30, 2007.

Condition:

The accounting closing process of the Authority was not adequate to prepare financial statements in an efficient and timely manner for the year ended June 30, 2006. The audit of the Authority's year-end financial statements for 2006 was originally scheduled for January 2007, but had to be postponed numerous times due to inability to support and reconcile financial information recorded during the 2006 year. We found that account reconciliations and analyses for major financial statement line items (i.e. cash, accounts receivable, accounts payable, revenue and expenses) had not been finalized. The lack of a complete and accurate close of the financial accounts resulted in numerous adjusting and reclassification entries subsequent to year end.

Related to this matter, as discussed below, the Authority has no formal documentation of its financial accounting procedures and system of internal control. A clear distinction of the duties and responsibilities of administrative and financial personnel has not been documented. The lack of written procedures and responsibilities has contributed to the inefficiency of the department and its inability to produce timely and accurate financial information.

Reconciliations and account analysis should occur on a regular basis to ensure accurate and timely financial reporting. An essential aspect of any organization's internal control over its financial reporting process is the ability to produce accurate financial data in accordance with generally accepted accounting principles. Accurate financial reporting enables management

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

and the Board of the Authority to have a sound financial basis for decision making. Conversely, the absence of accurate financial data may undermine the plans and initiatives of management and the Board of the Authority. The lack of a close and reconciliation process of the Authority represents a significant internal control which should not require or rely on the additional level of control supplied by an audit. We recommend the Authority establish and document the monthly and year-end closing process and outline procedures, responsible parties and timelines.

Previous Response for Finding:

Concerning auditor recommendations associated with internal controls over financial reporting:

- (A) Management concurs with the reportable condition of lacking an adequate accounting close process. There are still challenges with the consolidation of City and Library trial balances that persist through FY 2007 and 2008, although the process is much improved from FY 2006. Finance staff has made the necessary accruals (liability and revenue) for FY 2007 in preparation for the upcoming audit. They have completed a detail of fixed assets and depreciation schedule for FY 2007. Finance will have a well documented and accurate year end close process for FY 2009, which will begin in May 2009.
- (B) Improvements have been made to the month end close process, including review of financial statements, assuring that revenues and expenditures are appropriately recorded, and that all reclassifications are accounted for. Staff is developing written procedures to document a formal month end closing to include up to date reconciliations of accounts and periodic allocations.
- (C) In response to account reconciliations not being performed, Finance has completed the reconciliation of payroll liability accounts as well as the general and payroll cash accounts through June 2007. Reconciliations are on track to being current effective June 2009.
- (D) Concerning lack of financial accounting procedures and internal controls, management has defined the structure for the accounting and internal control procedural documentation. Staff has established good procedural documentation for the payroll system. Staff will produce a timeline for completing the entire documentation structure and present the timeline to the Board in January 2009.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

- (E) Concerning accurate and timely financial reports, effective August 2008, Finance has provided regular, timely and accurate financial reports to the Board and to the internal management teams.

Management Response on Current Status:

Improvements to accounting activities and functions are on track and progressing according to established timelines. The current status of reportable conditions stated above is as follows:

- (A) In February 2009 the Board of Directors reviewed and accepted the following policies and procedures:
- Financial Policy 796.1, Monthly Financial Closing Activities
 - Financial Policy 796.2, Quarterly Financial Closing Activities
 - Financial Policy 796.3, Annual Financial Closing Activities

Though some activities listed in these policies and procedures are still in development due to adoption of new technologies and improvements to allocation methods, core functions are in place and operating smoothly.

The annual closing process associated with 2007 fiscal year was much improved though some delays persisted in this cycle due to the complexity of combining the trial balance activity associated with our former fiscal agent; clearing up of outstanding reconciling items; the ongoing documentation and implementation of new controls, policies and procedures; and the handling of normal day to day operations. Staff is pleased to report that the Finance department is on track for a timely and accurate annual close associated with fiscal year 2009.

- (B) Account reconciliations for fiscal year 2007 were complete when the audit cycle commenced, however, a number of open items associated with the reconciliations required additional research and were not completed in a timely manner. Research associated with the backlog of open items has been ongoing and staff has made adjustments in the appropriate period as much as possible. The backlog was significantly reduced during the post audit period of 2007 and staff is pleased to report that the 2008 audit cycle has clean reconciliations.
- (C) Significant inroads have been made in the documentation and implementation financial policies and procedures. In addition to the above mentioned policies, in

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

February 2009 the Authority Board received and accepted the following policies for which training has commenced and is ongoing:

- Internal Control Policy and Procedures
- Contracts and Procurement Policy
- Library Branch Cash Handling Policy and Procedures
- Review and Approval of Processed Payroll Policy and Procedures
- A revised Investment Policy

Finding No. 2

Status:

This condition still existed during the audit for the fiscal year ending June 30, 2007.

Condition:

During our review of the Authority's accounting procedures and system of internal control over cash disbursements, we noted certain deficiencies in internal control and lack of segregation of duties exists in the following areas:

- Receiving reports should be required before payment is made.
- Invoices should be matched to purchase orders and receiving reports before payment is made.
- The check signature plate should be used only in the presence of two authorized individuals.
- The check prelist should be approved before any checks are processed.
- Printed checks should be approved for payment by the approved check signer or other responsible official.
- The custody of checks after they are signed and before they are mailed should be handled by an employee independent of all payable, disbursing, cash receiving, and general ledger functions.
- Vendor invoices should be delivered directly to the accounts payable staff.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

- Supporting documentation, such as the original solicitation document, competitive pricing analysis, and vendor selection documentation, related to formal bid procurements should be maintained by the purchasing agent in a centralized location.

Implementation of these measures will assist the Authority with internal controls over its cash disbursement process and reduces the risk of error or fraud through timely detection of irregularities.

Previous Response for Finding:

Concerning issues of internal controls over cash disbursements, management's response is as follows:

- (A) Staff will develop a plan to fully implement the first two issues concerning receiving reports and matching documents - full implementation by June 2009.
- (B) Concerning the issue of the check pre-list and approval of printed checks, this was not a practice in FY 2006 and 2007, but was implemented in November 2007 during FY 2008.
- (C) Concerning custody of checks after they are signed, management will develop a plan for implementing this control and implement in January 2009.
- (D) Concerning vendor invoices delivered directly to accounts payable staff, management implemented this in FY 2008.
- (E) Concerning supporting documentation related to procurement, management implemented these changes in FY 2009.

Management Response on Current Status:

Items (A) and (C) above are in process as of March 2009. Item (A) is targeted for completion in June 2009. Concerning the custody of checks after they are signed (item (C)), due to the staffing levels in the Finance Department, clerical duties of filing and stuffing envelopes are performed by technician level staff. Unfortunately, shifting the duty of check stuffing to higher level functions would be an inefficient use of staff resources. There are other options which staff will consider for implementing this control function by June 2009. In the meantime another control system which helps mitigate this weakness is the use of the positive pay service. Positive pay information is reviewed and forwarded to the bank by senior level staff.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Finding No. 3

Status:

This condition still existed during the audit for the fiscal year ending June 30, 2007.

Condition:

Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances accountability and consistency and can serve as a useful training tool for staff. The Authority currently does not have documentation summarizing its accounting policies and procedures.

We recommend that the Authority document its accounting policies and procedures through the creation of a policies and procedures manual. Accounting policies and procedures should be promulgated by an appropriate level of management to emphasize their importance and authority and should be updated periodically. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. Additionally, a specific employee should be assigned the duty of overseeing this process.

The accounting policies and procedures manual should be readily available to all employees. Furthermore, it should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the accounting policies and procedures manual should indicate task responsibilities and completion timeframes for each position in the department. The procedures should be described as they are actually intended to be performed and should explain the design and purpose of control-related procedures to increase employee understanding of and support for controls.

Previous Response for Finding:

Concerning the issue of formalized accounting policies and procedures, management concurs and has defined the structure and contents for a financial policies and procedures manual. This project was initiated in FY 2009 and is slated for completion in FY 2010. A comprehensive plan will be presented to the Board in January 2009.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Management Response on Current Status:

In January 2009, staff presented to the Board a list of issues as a result of its own Internal Assessment, in which included the need to establish comprehensive system-wide policy and procedures manuals to assist in Authority operations. The manuals are targeted to be in place by June 2009 and to be completed by June 2010.

Finding No. 4

Status:

No issues related to this prior audit finding were noted during the performance of the current year audit procedures.

Condition:

The budget is one of the most important documents a state or local government prepares because it identifies the services to be provided and how the services are to be financed. Based on discussions with Authority personnel, the Authority's current budget-to-actual reporting does not provide department heads complete and accurate budget-to-actual financial information in a timely manner.

We recommend that budget-to-actual reports be provided to department managers on a monthly basis and that department managers explain significant variances. Such reports can be provided in many formats and can vary in size, scope, and level of detail. At a minimum, the report should provide financial summary data on revenues and expenditures, including prior year actual, current year budget and current year actual to date. This type of budget-to-actual reporting allows departments to monitor the progress of financial and program/project results and adds an additional level of control over the Authority's financial reporting. If budget variances are not addressed in a timely manner, it may be too late for the organization to remedy the situation. Additionally, the budget-to-actual information should be presented to the Board on a regular basis.

Previous Response for Finding:

Concerning budget-to-actual reports, management concurs that reporting is essential to the organization. Budget-to-actual reports are provided to the Board on a monthly basis, since August 2008. Management has access to budget-to-actual reports, including historical data

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

related to prior year activity. Management will implement a plan for regular periodic reporting of budget-to-actual variances by department managers in January 2009.

Management Response on Current Status:

Staff is in the process of establishing a centralized computer based monitoring tool that will allow managers to provide monthly updates of budget-to-actual account activity. The purpose of this tool is twofold. It will provide managerial input to the normal reporting function and it will assess management's compliance to monitoring budget-to-actual account information on a regular basis. Additionally, staff has developed new summarized report formats for managers that provide quick and easy review of all accounts budget-to-actual information to assist them in monitoring and decision making processes. This is targeted for completion in April 2009.

Finding No. 5

Status:

No issues related to this prior audit finding were noted during the performance of the current year audit procedures.

Condition:

The payroll accounting technician reviews each pay period's payroll prelist but does not verify that pay rates are correct or reconcile the payroll prelist to source documents.

In order to prevent unauthorized paychecks from being issued, or unauthorized pay rates from being implemented, the payroll prelist should be reviewed by a person who does not have access to making changes to the payroll system. This person should review to make sure there are no unauthorized people, pay rates, or amount of time worked. This could be accomplished by randomly selecting a sample of employees and verifying gross earnings, net earnings, amount of time worked, and pay rate. The sample selected should come from employees that had a change in their status from the prior payroll period since changes to an employee's payroll status is the point at which risk for error is the highest. If any discrepancies are noted, they should be investigated and, depending on the results, the sample expanded to include more employees.

In addition the payroll technician should prepare a control total by department of hours worked, per the source documents (or other appropriate control total), before processing the

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

source documents, and compare the control total with the payroll prelist before processing payroll.

Previous Response for Finding:

Concerning payroll processing, in fall of 2008, management began a review of the standard operating procedures between Human Resources and Payroll to assure that changes to employee records are authorized and appropriately reviewed. Changes were implemented and further changes are pending, to be completed by January 2009.

Management Response on Current Status:

The February 2009 policy, Review and Approval of Processed Payroll, provides assurance that payroll payments and associated mid-process changes in the detailed processed payroll reports have been reviewed against payroll activity reports and other source documents and have been approved by designated employees before payroll payments are authorized. The policy makes additional provision for individual review and approval of net payroll payments exceeding five thousand dollars.

Finding No. 6

Status:

This condition still existed during the audit for the fiscal year ending June 30, 2007.

Condition:

During the course of the audit it was noted that there were several missing or misplaced documents which management could not locate. In addition there were many instances where documents could be found but the underlying transactions were not supported by appropriate supporting documentation, such as credit card receipts, invoices, and journal entry explanations.

The Authority as a governmental agency has a fiduciary responsibility to those citizens that it serves and as a result is subject to audit by various external organizations. The Authority cannot justify business decisions or transactions without maintaining the proper supporting or authorizing documentation. We recommend that the Authority include supporting documentation with all transactions processed to ensure a proper audit trail.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

Previous Response for Finding:

Concerning supporting documentation, management concurs and has implemented a more detailed documentation process related to financial transactions. Journal entries are approved only when accompanied by appropriate supporting documentation and a written explanation justifying the need for the transaction. The Library's credit card policy requires detailed receipts and descriptions and high level review of credit card transactions. As referenced in 2A above, documentation associated with accounts payable invoices will include receiving reports and other matching documents by June 2009.

Management Response on Current Status:

Account payable documentation is on target for completion by June 2009.

Finding No. 7

Status:

This condition still existed during the audit for the fiscal year ending June 30, 2007.

Condition:

The Authority does not maintain a detailed accounts receivable ledger for all funds. As a result, accounts receivable are not periodically aged and reviewed. In addition, Authority billings are not reviewed by anyone other than the preparer prior to being mailed.

A detailed accounts receivable ledger is essential to the maintenance and monitoring of receivables and should be prepared and placed into use as soon as possible. The aging of accounts receivable lists accounts for which payment has not yet been received and how long they have been outstanding. Its review contributes to the proper valuation of net accounts receivable, as it identifies accounts for which it is unlikely that payment will be received and an allowance for doubtful accounts should be recorded. We recommend that such an aging report be prepared and implemented into regular use. In addition, we recommend that bills be reviewed by an employee independent of its preparation prior to being mailed.

Previous Response for Finding:

Concerning accounts receivable, management concurs with the recommendation. SPL acquired the accounts receivable module at the end of FY 2008 and will have it implemented

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

by June 2009, with appropriate documentation and internal controls, including appropriate separation of duties and reporting.

Management Response on Current Status:

Setup of the receivable module, processes and controls are on target for completion in June 2009.

Finding No. 8

Status:

No issues related to this prior audit finding were noted during the performance of the current year audit procedures.

Condition:

During our audit we noted that the Authority does not have a comprehensive capitalization policy. As a result, the Authority does not maintain a detailed capital assets listing, nor does it track depreciation by individual asset. Consequently, the stewardship of capital assets maintenance and replacement is difficult for management and may lead to obsolete capital asset inventory, inaccurate depreciation estimates and inaccurate budget projections for annual capital outlay expenditures.

We recommend that the Authority reexamine its capitalization policy, update as necessary, and take a detailed capital asset inventory. If significant changes are a result, the accounting records should then be updated as appropriate.

Previous Response for Finding:

Concerning capital assets, management concurs with the recommendation. A formal fixed asset policy is slated for completion in FY 2009. Currently, the fixed asset module is formatted and partially implemented. In FY 2007, staff began tracking fixed assets on an individual basis, including recognition of depreciation by item.

Management agrees that a full inventory of Authority assets should be completed. Management will evaluate the possibility of commissioning a full inventory of Authority assets by location and stewardship during the development of the FY 2010 budget and will make a recommendation to the Board in conjunction with budget updates. Management will

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

June 30, 2007

develop policy and procedures for the appropriate acquisition, disposition, management, and reporting of Library assets by June 2009.

Management Response on Current Status:

Staff is in the process of commissioning a full inventory of Library assets in fiscal year 2010. Inventory data will be populated into the Eden Fixed Asset Module to allow for regular monitoring and control of managed assets. The physical inventory, Eden updates, and control policies targeted for completion by June 2010.

Finding No. 9

Status:

No issues related to this prior audit finding were noted during the performance of the current year audit procedures.

Condition:

During our audit we noted that the general ledger as maintained by the City of Sacramento did not appropriately record equity amounts as a result of not recording prior year post-closing and audit adjustments. This resulted in additional labor hours to reconcile the accounting records to financial statement amounts which in turn led to a significant delay to the preparation of the financial statements.

We recommend that the Authority prepare journal entries to be recorded in the general ledger maintained by the City of Sacramento reflecting the net affect of prior period post-closing and audit adjustments to allow for the accurate recording of equity amounts of the Authority.

Previous Response for Finding:

Management concurs with the recommendation that fund balance and account activity associated with accounts maintained by the City of Sacramento should be updated more regularly. During fiscal year 2007, the laborious process of recognizing City account activity by line item was done at mid-year, but due to turnover of staff, the full year of financial activity was not recognized in the Eden system of the Library until recently. The suggestion to record only the net effect of prior period post-closing and audit adjustments is a good one and would provide timely accurate reporting of financial activity at a higher level.

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SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

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Fortunately, there was very little City activity in FY 2008 after the Library accounts held by the City were closed. The FY 2008 audit will not be delayed by these issues.

Management Response on Current Status:

Closing activities related to City of Sacramento accounts were completed in fiscal year 2008. The audit associated with fiscal year 2008 is on target for completion in May 2009.

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