



City of Philadelphia
OFFICE OF THE INSPECTOR GENERAL
Policy Recommendation Report

Commissioner & Department Free Library of Philadelphia 1901 Vine Street Philadelphia, PA 19103	Subject: Payment-Processing Procedures
File Number: 9230, 9247 & 9329	Work Unit & Location: The Free Library of Philadelphia & The Free Library of Philadelphia Foundation

Policy Recommendation Report

I. INTRODUCTION

The Office of the Inspector General (OIG) conducted an investigation of thefts at three separate library branches. A report of investigation has been provided to the appropriate City officials. The investigation established that employees of the Free Library of Philadelphia (Free Library) stole money received from library patrons for the payment of fines by exploiting internal control weaknesses in the Free Library's cash collection and bank deposit procedures. The investigation also established that several managers enabled the embezzlement by not properly supervising their employees. The staff of the Free Library and Free Library of Philadelphia Foundation (Foundation) provided full assistance to the OIG investigators.

The OIG is providing this policy recommendation report to assist Free Library and Foundation management in improving the Free Library's payment-processing procedures. On March 11, 2011 Elko & Associates Ltd, Certified Public Accountants conducted an audit. They evaluated the processing of cash receipts at select library branches and evaluated the process for recording and reconciling the fine income in the general ledger of the Foundation. This report makes additional policy recommendations and also supplements Elko & Associates' recommendations. The Free Library has amended the payment-processing procedures to include many of the recommendations included in the Elko and OIG reports.

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II. BACKGROUND - LIBRARY PROCEDURES

The Foundation functions primarily to secure federal, state, city, and private grants and contributions to library programs. The Foundation entered into an agreement on June 19, 1984, with the Board of Trustees of the Free Library, an independent board of the City of Philadelphia (City), responsible for securing and spending City appropriations. Under this agreement, the Board of Trustees of the Free Library maintains care and custody of the collections of the Foundation and makes all necessary operational decisions as to the management of the libraries and the collections of the Foundation.

The Free Library runs the day to day operations of the various libraries. AS #45, Library Policies and Procedures for Handling Agency Receipts (AS #45) lists the Free Library's policies and procedures to process cash receipts at the library branches. All revenue collected at a library is deposited in one of the Free Library of Philadelphia's Trustee Accounts. The revenue collected is processed and recorded by the Foundation Finance Office. The Free Library is estimated to collect approximately \$700,000 to \$800,000 a year in revenue.

Each library branch is equipped with a cash register that is networked to the Foundation's central computers using a software product by Envisionware called Staff Transaction Station (STS). All STS transactions are recorded in the STS database. The STS Procedure Manual defines the steps to process STS transactions. The STS Procedure and AS #45 manuals are provided to all library employees.

The money collected by a library assistant is entered in the cash register. At the close of a fiscal day, the library assistant prints two copies of the Close-Out Register Tape: one copy is retained at the branch and one copy is included in a Deposit Summary Packet that is sent to the Foundation Finance Department after deposit money is delivered to the bank. At some branches, the library assistant writes on a cash register reconciliation log for each day, the type and amount of income collected. However, the use of a cash reconciliation log by a library branch is not mandatory.

A bank deposit must be made at least once a week or when receipts total over \$200, whichever comes first. Receipts are deposited in one of the six Trustee bank accounts that are located throughout the City. The lead librarian assistant normally prepares the Deposit Summary Packet, which consists of a deposit slip and the Cash Register Summary of Revenue Report (Revenue Report)¹ with the respective cash register tapes attached. The Revenue Report is then signed by a library assistant as the preparer and the branch manager signs as the agency head. The Revenue Report is used to notify the Foundation Finance Department of the collection dates, amounts, and sources of income. A copy of the Deposit Summary Packet is kept on file by both the Foundation Finance Department and the branch library.

Each month, the Foundation Finance Department reconciles the deposit amounts listed in the Deposit Summary Packets with the deposit amounts listed on the bank account statements and prepares a Monthly Receipt Report (Receipt Report) and a Fine Income Bank Account Reconciliation Summary Report (Reconciliation Report).² The Receipt Report lists the deposits made by branch and the Reconciliation Report reconciles the banking activities of all branches with the respective bank statements.

¹ Cash Register Summary of Revenue Report is the form used to notify the Foundation of bank deposits, the collection dates, amounts, and sources of income. The October 31, 2011 AS #45 changed the name of the Cash Register Summary Report to the Cash Drawer Summary Report.

² Bank account reconciliation is a process that compares the bank balance shown in an agency's bank statement, as supplied by the bank, and the corresponding amount shown in the Foundation's accounting records at a particular point in time.

POLICY RECOMMENDATION REPORT

The OIG investigation included an extensive analysis of deposit records on file at the Foundation and library branches; personnel files; timesheets; emails; applicable policy and procedure manuals; interviews of Free Library and Foundation staff (active and retired); and other witness interviews.

The OIG identified a pattern of inappropriate financial activity at three branches involving missing and incomplete bank deposit records. Based on this pattern, the OIG expanded the investigation to include the Foundations internal controls on Free Library Income.

The investigation established that these library assistants inappropriately took money that was under their care. Their supervisors had delegated to them the responsibility for their entire branch's collection and deposit processing steps. They were the only employees in their branches who prepared the bank deposit documentation, delivered the money to the bank, sent the deposit documentation to the Foundation, and maintained oversight of the branch's deposit documentation. These library assistants always prepared deposit documentation unobserved, alone in a room with closed doors. They kept the money instead of depositing the money in the Foundation's bank accounts. They also took steps to hide the missing bank deposits by manipulating the deposit documentation and preventing the proper completion of bank reconciliations for the period the money was taken, May 2009 to November 2010.

III. FINDINGS AND RECOMMENDATIONS

Finding 1: Separation of Responsibilities

All three library assistants who embezzled money had the total trust of their supervisors. Their supervisors had delegated to them the responsibility for their entire branch's collection and deposit processing steps. They were the only employees in their branches who prepared the Revenue Reports and deposit slips, delivered the money to the bank, sent copies of the Revenue Reports and deposit slips to the Foundation, and maintained oversight of branch's copies of the Revenue Reports and deposit slip. After taking the library funds, they were able to conceal their thefts by manipulating or destroying library records.

Recommendation

The Elko Report recommended that Revenue Reports be reviewed by another employee. The OIG suggests that AS #45, "Section I: Introduction" be amended to include the following paragraph:

"Branch managers are advised that, when possible, the responsibilities for processing the daily cash drawer closeout procedure, processing bank deposits, and delivering deposits to the bank be divided among three employees. When staff limitations make this impossible, these responsibilities should be rotated among the available staff. The responsibility of delivering the deposit money to the bank should always be assigned to an employee who does not handle money such as a library guard."

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Finding 2: Witnessed Cash Counts

Each of the three library assistants who embezzled took money was the only branch employee who counted both the cash collected and the cash deposited. Daily, these library assistants counted the cash collected and processed a close-out on the cash register. Weekly, the same library assistants counted the cash and prepared the deposit documentation. Since they were the only employees counting cash, they were able to take money and conceal the theft by falsely recording that all cash collected had been deposited.

Recommendation

The OIG previously recommended to the Free Library's management that cash counts be witnessed by two employees. We also recommended that the employees who witness the cash counts sign the Cash Drawer Reconciliation Log (CDRL)³. In response to the OIG's recommendation, the Free Library's management amended the AS #45, "Section II, Part H.2c: Drawer Closeout Procedure" as follows:

"The Staff member who counted the cash drawer and the second staff member present during the count should initial and date the CDRL."

Finding 3: Foundation's Bank Reconciliation Processes

Initially, investigators were unable to determine dollar amounts of the misappropriated funds because electronic deposit records were missing and there were deposits listed in the Foundation's bank reconciliation process for which no branch was identified as a source. There was no accurate reconciliation of the fine money collected at a branch and recorded on STS database with the deposits listed on Foundation's bank account statements. The Foundation relied on the library assistants to supply the STS data for accurate reconciliations, but library assistants were withholding or providing the Foundation inaccurate deposit information.

Recommendation

The OIG recommends the Foundation staff properly reconcile the Free Library's bank accounts and promptly report breaches in the payment processing procedure to the appropriate Foundation and Free Library supervisors and the Free Library's Integrity Officer. Suspicions of fraud should be promptly reported to the OIG.

The OIG recommended to the Free Library that a branch's deposit slips have an identifying code printed on them so that the Foundation and the bank can easily identify the source branch. In response to this recommendation, the Free Library now requires deposit slips to have the source branch's name stamped on it.

The OIG recommended that the Foundation back up its computerized bank reconciliation records off-line and develop a written procedure to reconcile bank accounts.

³ Cash Drawer Reconciliation Logs records for each day the type and amount of income collected at a branch.

With the assistance of the Free Library's Information Technology Division, the OIG was able to generate daily deposit reports. The OIG suggests that the Foundation regularly generate daily deposit reports. These deposit reports could be used by the Foundation Finance Office to accurately reconcile a library branch's deposit activity independent from the documents provided by the library assistants.

In response to these recommendations, the Free Library's management has amended AS #45 to include "Section III, Part E: Foundation Finance Accountability." This new section identifies both the Foundation and the Free Library's specific responsibilities concerning the bank reconciliation process. Those responsibilities include the use of STS reports and a procedure that reports branches that fail to process funds in accordance with AS #45.

Finding 4: Lack of Supervisory Oversight

AS #45 lists the Free Library's policies and procedures to process cash receipts at the library branches. The OIG found that library employees, including supervisors, routinely disregarded the directives in AS #45 when processing cash collections and deposits. Library assistants were able to ignore these library payment-processing procedures. They did not properly prepare deposit documentation and did not always make bank deposits. The supervisors never checked their work.

Recommendation

A branch manager is responsible for verifying that all cash is collected and then deposited at the bank in accordance with AS #45. In response to the OIG's recommendation, the Free Library's management has amended AS #45, "Section VI Samples of Forms and Instructions, Part B: Drawer Closeout Procedure" to require a branch manager's signature on Revenue Reports.

The Free Library should devise a verification system for cash collections and deposits. A regional office staff member should periodically visit a library branch unannounced and review a few deposit documents on file to assure that employees are processing collections and deposits in accordance with AS #45. The OIG further suggests that a checklist be developed to record the results of the visit.

Finding 5: Reporting Problems

Free Library and Foundation managers and employees have not reported or addressed problems in payment-processing procedures. In one case, the Regional Administrator was repeatedly notified by the Branch Manager and a Library Assistant 1 that a Library Assistant 3 was routinely disregarding AS #45. Instead of addressing the Library Assistant 3's misconduct, the Regional Administrator transferred the Library Assistant 1 to another library branch. In other cases, library workers knew that co-workers were disregarding official processing procedures, yet they never questioned or reported the misconduct to supervisors.

Recommendation

The OIG recommended that the Free Library develop a policy that encourages employees to promptly report payment processing problems and missing revenue to the appropriate supervisors and to the Free Library's Integrity Officer. In response to this recommendation, the Free Library's management has added a new section to AS #45 that addresses our concern. "Section II, Part I: Cash Drawer and Safe Security Measures" requires staff to notify the Division Chief if revenue is determined missing. Any indication of staff theft, fraud, or misuse of funds will be reported to the Free Library Integrity Officer, who will forward a report to the OIG.

Finding 6: Processing Integrity

The OIG investigation established that library employees operated cash registers using other employees' Personal Identifying Numbers (PIN). When employees share PINs, the integrity of the system is jeopardized. The identity of the employee who generated a transaction cannot be clearly established.

Recommendation

The OIG recommended that the Free Library enforce a policy that employees log in and sign out using only their own PIN and only operate a cash register when logged on with their own PIN. In response to this recommendation, the Free Library's management has amended AS #45, "Section I: Introduction," to include the following:

"Staff should protect their logon and PIN. Staff should only work under their own logon."

Finding 7: Key Control Policy

The OIG was unable to locate any policy on file at the library branches visited that would assure only certain employees have access to secure locations. There was no document listing the employees who had keys to access the building, rooms, safes and file cabinets. Library assistants suspected of theft and recently transferred may still have keys to the branches from which they stole money.

Recommendation

The OIG recommends the Free Library develop a key control policy and procedure that limits the access to branch buildings, rooms, safes and file cabinets by making sure keys are only used by authorized employees. Key access should be restricted to the employees who need to access the secure locations in accordance with their assigned work responsibilities. A record should also be kept of all persons who enter the building after hours.

The locks should be changed when the integrity of an employee who was issued keys has been compromised.

Library branches should deliver deposit money to the bank in a locked cash bag. Only the library assistant who prepared the deposit and the bank branch teller where the deposit is being made should have keys to the cash bag.

Finding 8: Limit Knowledge of Safe Combinations

Library branches are equipped with safes to secure library assets and prevent theft. However, the safes at the library branches we investigated were usually unlocked and open. The combinations to the safes were written on slips of paper on a workroom desk, a location known by all library branch employees.

Recommendation

The OIG recommends that safe combinations be kept confidential and limited to the employees who need access for their assigned work responsibilities. Any document containing a safe's combination should be placed in a secured area. The risk of theft is increased as the number of employees who know the safe combination increases. Additionally, the safe door should remain closed and locked when not in use.

Finding 9: False Fine-Forgiveness Transactions

In an effort to encourage school-children to use their libraries, the Free Library developed a fine-forgiveness program. The fine-forgiveness program gives the library assistant operating a cash register the authority and ability to forgive a library fine of up to \$25.00. In the summer of 2011, the fine-forgiveness program was expanded to give library assistants the authority and ability to forgive library fines of up to \$50.00.

The OIG investigation established that a library assistant had been abusing the fine-forgiveness program. This library assistant took money from library patrons for the payment of fines and entered the transactions in the cash register as fine forgiveness, rather than as fine payments, and kept the money.

A library assistant operating a cash register also had the ability to incorrectly enter a purchase transaction on the cash register as a "no sale" or enter a fine payment transaction as a "change making" transaction and keep the money collected. Library assistants could also incorrectly enter a credit transaction and keep the amount of money credited.

Recommendation

The OIG recommended that a new fine-forgiveness procedure be promptly added to the AS #45. The branch manager's approval should be required and his or her approval should be recorded in the STS data base. We also recommended that the Free Library develop a monthly STS report that lists by library branch any forgiven fines, cancelled fines and "change making transactions."

Pursuant to our investigation, the Free Library management added "Section II, Part F: Fines-Forgive and

Cancel” to the AS #45. The new procedure requires two employees to process a fine-forgiveness transaction. Any fine forgiven in excess of \$50.00 must now be approved by an administrative librarian.

The Free Library now produces a quarterly STS report that lists the transactions forgiven and cancelled by a branch. The report is distributed to the administrative librarians. Administrative librarians are responsible for following up with subordinate branch managers should they discover any irregularities.

Finding 10: Off-Record Funds

The OIG investigation established that at one library branch, a branch manager routinely used her personal checking account to conduct Free Library business. This branch manager routinely deposited Free Library checks into her personal checking account. She then withdrew cash from her account to purchase newspapers for the branch and to reimburse employees for travel expenses.

OIG investigators also discovered that a branch manager stored petty cash cans under the circulation desk and used this cash to pay for library expenses and to make change for the copy machine. The supervisor also allowed staff to routinely borrow from the cans. The OIG was unable to locate any formal accounting for the petty cash cans.

Recommendation

The OIG recommends that branch managers be instructed not to commingle Free Library funds with their personal funds and not to conduct Free Library business using their own checking accounts.

The OIG recommends that the Free Library and the Foundation amend AS #45 and the STS network to include petty cash so that all the funds used by a branch library will be subject to formal accounting.

The Free Library should consider installing a change machine at each branch. The cost of purchasing a change machine would be offset by the savings in labor cost and would minimize the opportunity for staff to misappropriate Free Library funds. The cash register would not have to be opened and staff interrupted to make change for patrons.⁴

Finding 11: Missing Records

The OIG investigation was hindered by the absence of collection and deposit records at the branches.

Recommendation

The OIG recommends that the Free Library develop policies and procedures to ensure that payment-processing records are maintained and safeguarded in accordance with the City’s record retention policies.

⁴ A coin changer with a capacity to hold a \$125 in quarters can be purchased for \$530.

Finding 12: Update Policy & Procedure Manual

The OIG noted that AS # 45, Free Library Policies & Procedures for Handling Agency Receipts was last revised on June 23, 2003 and was in need of revision. The AS #45 did not include the responsibilities of the branch manager concerning the processing of cash collections and bank deposits. The AS #45 also had not been updated to include the new processing steps resulting from the implementation of STS.

Recommendation

The OIG recommended that the AS #45 manual be revised to define supervisory responsibilities and include the processing changes that resulted from STS implementation. Pursuant to our recommendation, on October 31, 2011 the Free Library issued a revised AS #45 that addressed the above concerns.

IV. CONCLUSION

Throughout this investigation, the OIG Investigators worked closely with Free Library and Foundation staff. Many of our recommendations were implemented throughout this process, as we considered it important to immediately take action to correct weaknesses in the process rather than have the library wait for a full and complete Policy Recommendation Report. This report summarizes not only the recommended changes, but describes the changes that the library made pursuant to our recommendations. We also understand that many of these recommendations will take time to implement. We are available for any assistance the library may need.