

TORONTO STAFF REPORT

May 29, 2006

To: Toronto Public Library Board
From: Auditor General
Subject: Fines and Income Review– Toronto Public Library

Purpose:

This report presents the results of our review of Toronto Public Library fines and income conducted as part of the Auditor General's 2005 Annual Work Plan.

Financial Implications and Impact Statement:

The implementation of recommendations in this report will improve management controls over fines and income, and ensure efficient and effective delivery of library services. Future savings may be determinable as staff identify specific actions and expected time frames required to implement recommendations contained in this report.

Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled "Fines and Income Review – Toronto Public Library" be adopted:
 - "1. The City Librarian take steps to:
 - (a) develop a process to ensure all write-offs including fines and fees related to past due amounts and the cost of lost materials waived and purged during the year are formally approved by management and reported to the Library Board on a periodic basis; and
 - (b) review Library practices related to recording outstanding fines, provisions for uncollectible accounts, and write-offs into accounting and financial records.

2. The City Librarian establish financial limits for staff fine and cost of overdue material waivers in the circulation system.
3. The City Librarian implement a process providing for input of staff identification and the reason for a fine waiver when granted in the circulation system.
4. The City Librarian consider the implementation of the following features for the proposed Library circulation system:
 - automated controls for limiting waivers and fine overrides in accordance with staff access levels; and
 - capability of generating more periodic reports related to collections and waivers including fine waivers over certain limits, cumulative fines waived by account, fine waivers by staff identification and the reasons for the waiver.
5. The City Librarian strengthen the process for reporting and follow-up on branch variances from established benchmarks for fine waivers and cost of overdue materials.
6. The City Librarian develop and implement a process for more frequent review of fine waivers and the cost of lost materials by branch managers and Library management.
7. The City Librarian should integrate cash registers and point-of-sale machines with the circulation system and strengthen cash management controls by implementing a process for more frequent review and reconciliation of cash collection reports with circulation system reports.
8. The City Librarian implement the following cash control policies and procedures:
 - (a) Accounting documents should be reviewed and approved by branch managers before being submitted to the Library Accounting Department;
 - (b) Variances on cash collection reports should be followed up by branch staff;
 - (c) Frequency requirements for cash counts and reconciliations should be developed for branches;
 - (d) Limits for the accumulation of funds should be established and funds collected should be deposited timely;
 - (e) Branch bank reconciliations should be reviewed by supervisors;
 - (f) Front desk staff schedules should be documented;

- (g) Safes and vaults should be located in secure areas, kept locked when unattended, and combination locks changed periodically; and
 - (h) Policies and procedures related to handling petty cash should be enforced.
- 9. The City Librarian should take steps to either allow for the direct bank deposit of funds by the Access Services Department at the Toronto Reference Library or develop a formal process for cash transfer between the Access Services Department and Accounting Department.
- 10. The City Librarian should review the cheque receipt and recordkeeping process to ensure adequate separation of duties exists between staff receiving funds and staff updating accounting records.
- 11. The City Librarian should ensure procedures for transfer of funds includes a protocol for acknowledging receipt of funds.
- 12. The City Librarian should ensure that the delinquent patron reminder statement regarding transfer of overdue accounts to a collection agency be displayed prominently on the front of the notice so that readers are more likely to read the warning.
- 13. The City Librarian should implement a process for verification of collection agency invoices ensuring variances are investigated, and incorrect entries are adjusted accordingly. Reported instances should be investigated and excess payments, if any, made to the collection agency in the past should be recovered.
- 14. The City Librarian should review the process for formally validating the corporate status of organizations applying for room booking as not-for-profit.
- 15. The City Librarian should ensure that outstanding balances for room bookings are recorded in the accounting system and reported in the financial statements.
- 16. The City Librarian should develop policies and procedures for:
 - (a) collecting advance payment for room bookings;
 - (b) ensuring timely follow-up on outstanding room rentals; and
 - (c) maintaining complete records of room bookings and outstanding room rentals by branches not using the centralized room booking system (CLASS).
- 17. The City Librarian should maintain and monitor occupancy statistics for room rentals as a tool for planning.

18. The City Librarian should ensure centralized branch use of the room booking system (CLASS) by the end of 2006.
19. The City Librarian should ensure licences are acquired based on a review of expected use and actual use is monitored. Centralized room booking system (CLASS) licenses acquired to date should be reviewed and related maintenance costs should be negotiated with the vendor according to expected use.
20. The City Librarian should improve controls on management of leases and lease rentals by:
 - (a) developing a lease agreement process to track lease details including expiry dates to ensure timely lease renewals. In addition, all terms and conditions should be finalized prior to commencement of the agreement; and
 - (b) obtaining post dated cheques in advance from tenants as a means of collecting lease rental revenue on a timely basis.
21. The City Librarian should ensure lease rental write-offs are supported with formal management approval.
22. The City Librarian should renegotiate photocopier rates with the vendor and evaluate other options including the coordination of the Library photocopy contract with the City.
23. The City Librarian ensure existing and future contracts are reviewed and evaluated to take advantage of volume pricing by coordinating with the City.
24. The City Librarian should review the photocopier maintenance payment process to ensure service is not covered under the current maintenance agreement prior to payment. Prior period maintenance costs should be reviewed and any duplicate payments should be recovered accordingly.
25. The City Librarian should reduce the current charge card machine ("Mini-Till") maximum value (currently \$999), and ensure charge card machines and library cards are maintained in a secure location where cards cannot be accessed and charged by persons other than library staff.
26. The City Librarian should direct branches to reconcile charge card machine ("Mini-Till") reports with daily cash collection reports.
27. The City Librarian should review current controls in the circulation system and ensure data integrity is maintained and adequate records exist for changes made to system records.

28. The City Librarian should ensure the price change control process is formally documented and all price changes in the system adhere to a formal written process.
29. The City Librarian should take steps to minimize the risk of unauthorized access to patron information transmitted to the collection agency. Steps should be taken to ensure the use of secure methods for transmitting data such as data encryption and secure logins.
30. The City Librarian should ensure the formal development of system control processes for:
 - granting staff access to library systems;
 - maintaining access controls lists;
 - ensuring access is provided to appropriate staff and periodically removing users not requiring system access; and
 - enforcing password change controls on a regular basis.
31. The City Librarian should ensure development of implementation plans for planned projects. Projects affecting library branches should be coordinated and communicated to branches and include an agreed upon implementation plan.
32. The City Librarian should ensure the implementation of measures to promote the integrity and accuracy of inventory records, and minimize errors when receiving and processing returned material."

(2) this report be forwarded to the City of Toronto Audit Committee for information.

Background:

This review covers the following areas related to the Toronto Public Library:

- Management and Administration of Fines, Fine Waivers and Write-offs;
- Internal Controls Over Cash;
- Room Booking and Equipment Rentals;
- Management of Leases and Lease Rentals;
- Management Control Over Photocopy Revenue; and
- Information Technology Environment and Controls.

This audit was conducted in accordance with generally accepted government auditing standards.

Comments:

The attached Auditor General's report entitled "Fines and Income Review – Toronto Public Library" contains 32 recommendations. Management's response to the recommendations

contained in this report is attached as Appendix 2. The Chief Librarian has also prepared a separate management response submitted concurrently with this report.

Conclusions:

The objective of this review was to assess whether the Toronto Public Library has appropriate and effective management controls over cash collection and related processes. Our review focused on the collection of fees and fines, room booking revenue, lease space rentals and photocopy revenue including information technology systems and processes relating to these areas. Our review identified a number of areas requiring strengthened management controls and improved system support, some of which are currently being addressed by management.

Addressing the recommendations in this report will provide for more efficient use of City resources and enhance the cost effectiveness of services provided by the Toronto Public Library.

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Auditor General

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05-BPL-01

List of Attachments:

- Appendix 1: Fines and Income Review – Toronto Public Library
- Appendix 2: Toronto Public Library – Auditor General's Fines and Income Review – Management Response and Action Plan

Fines and Income Review – Toronto Public Library

May 29, 2006

 **TORONTO** Auditor General

Fines and Income Review – Toronto Public Library

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Auditor General
City of Toronto

May 29, 2006

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EXECUTIVE SUMMARY

In accordance with the Auditor General's 2005 Annual Work Plan, we have completed our review of the Toronto Public Library fines and income collection processes.

This report contains a significant number of recommendations, which in our view will improve controls over cash collection procedures, potentially increase revenues and improve operational effectiveness.

The extent of the recommendations should not be viewed as indicative of concerns with the manner in which the Library operates but rather as a catalyst to improve current policies and procedures. An audit process by its very nature is designed to identify concerns and more importantly make constructive recommendations for improvement. It is also important to keep in mind that this is the first major review by the Auditor General of the operations of the Library since amalgamation.

We also recognize the various operational initiatives implemented by the Library since amalgamation. These include the following:

- the introduction of ongoing internal reviews at the branch level;
- the introduction of centralized facility bookings;
- the implementation of point-of-sale machines;
- the engagement of a collection agency to collect outstanding receivables; and
- the introduction of various benchmarks throughout the system.

We appreciate that the primary mission of the Toronto Public Library is to provide high quality library service to members of the general public. The intent of this review is to assist the Library by identifying more opportunities for improved business practices. Improved business practices will improve service to the public.

Improvements to the way the Library operates are also possible through closer co-operation and consultation with the City of Toronto. We have identified in this report a number of areas where closer co-operation with the City may have resulted in cost savings. For example, the sharing of software acquisitions with the City, as well as the need to take advantage of the purchasing power of the City particularly with respect to photocopier services, are areas that require review by the Library.

Specific issues identified through the course of our review are as follows:

Management and Administration of Fines, Fine Waivers and Write-offs

- Controls on write-offs and fine waivers require strengthening. Cumulative write-offs and waivers of fines and lost materials as of December 2005 amounted to approximately \$12.9 million of which \$6.6 million occurred prior to amalgamation dating back to 1982. We have been advised that certain of the predecessor libraries never purged fines and, as a result, came into amalgamation with significant uncollectible receivables. This is the first major write-off of cumulative receivables since that time. These amounts have been deemed uncollectible. We estimate additional write-offs of \$1.5 million in 2006. The annual average of fines and cost of materials waived and written-off exceed \$1 million over the past eight years, and represents approximately 6 to 10 per cent of annual circulation material purchases;
- Controls over review of fines and waivers require strengthening. Certain branches deviate from established benchmarks for fine waivers and variances are not followed up by management. Amounts purged annually are not reported to branches; and
- Reduction in write-offs of approximately 20 per cent could result in revenues and recoveries of lost materials of up to \$200,000 - \$300,000.

Internal Controls Over Cash

- Lack of integrated information technology systems results in cash discrepancies and increased volume in manual activity. There is a risk that fines collected may not be properly accounted for in the circulation system;
- Delays in cash reconciliations make it difficult to identify cash variances on a timely basis. Unreconciled differences between cash register payments and the Library circulation system for 2004 and 2005 were approximately \$75,000 and \$54,000 respectively;
- Lack of timely bank deposit, review and approval of cash reports, timely follow-up on cash variances, petty cash controls were other areas requiring attention noted during our review;
- Lack of separation of duties between cash collection and recordkeeping for revenue received on past due amounts should be addressed;
- Collection agency invoice validation process requires improvement. We could not validate several cash collection entries on collection agency invoices with the library system. As well, we could not determine that these collections and respective commissions paid to the collection agency were valid; and
- Improving follow-up reminders could result in a decrease in collection agency referrals. A 30 per cent reduction could result in cost savings of \$30,000.

Room Booking and Equipment Rentals

- Controls on accounting and recovery of room booking receivables are not adequate. Branch recordkeeping related to room booking revenue and outstanding receivables need improvement;

- As of December 2005, approximately 40 per cent of total outstanding amounts or \$33,500 for room bookings were over 120 days past due, and \$15,000 appeared to be uncollectible; and
- A centralized room booking system (CLASS) was acquired in 1999. Since then, limited implementation has occurred and the decision to fully centralize system-wide bookings was made in 2005. At January 2006, approximately 30 per cent of the Library's rental facilities can be booked using the CLASS system. Efforts are underway to centralize room bookings for all branches and full implementation is expected by December 2006.

Management of Leases and Lease Rentals

- Lease agreements are not renewed on a timely basis. For the period from 1999 to 2004, the Library did not have signed lease agreements with tenants;
- As of December 2005, 75 per cent of total outstanding lease payments or approximately \$31,000, were over 90 days past due. In addition, the Library does not engage in the practice of taking postdated cheques for lease rentals in advance; and
- Write-offs of approximately \$23,000 in outstanding lease rentals did not have formal sign-off approvals.

Management Control Over Photocopy Revenue

- Photocopier rates paid to the vendor were agreed upon in 2000. In October 2003, the photocopier contract was extended to January 2008. Photocopy market rates have declined substantially and the Library should renegotiate rates, if possible, with the vendor;
- A reduction of up to three cents per copy in contracted rates could result in savings of up to \$270,000 annually. We have also provided recommendations for evaluating other

options including coordinating with the City to take advantage of volume pricing discounts. We noted a significant difference between the rates paid by the City and the Library. We calculated a cost difference of up to \$500,000 in photocopy charges when City rates are applied;

- Photocopy revenues are not reconciled with photocopy charge card machines; Discrepancies in cash collection and charge cards go undetected without reconciling the two records; and
- Existing and future contracts should be reviewed and evaluated to take advantage of volume discounts by coordinating with City contracts.

Information Technology Environment and Controls Review

- System software licenses are not monitored for utilization. We estimate \$150,000 could have been saved over the past five years by monitoring and adjusting the number of software licenses and negotiating related system maintenance costs;
- Access control lists are not monitored by the library information technology division;
- Price changes in the circulation system do not adhere to generally accepted change control practices;
- Patron account information is electronically submitted to the collection agency without encryption. Transfer of account information without encryption results in potential privacy risks;
- Library information systems do not maintain a record of write-offs and fine waivers. Once the account is purged or waived, patron account history is deleted and similar account abuses may occur with the same patron in the future without a system alert;

- Transactions from patron history records can be accessed and deleted from the system without an audit trail; and
- Passwords are not changed regularly resulting in the risk of system access by unauthorized users.

Other Issues:

- Project planning and implementation controls require improvement. The Library paid \$38,500 for point-of-sale machines installed but not operational; and
- Inventory control practices require review and evaluation.

RECOMMENDATIONS

- 1. The City Librarian take steps to:**
 - (a) develop a process to ensure all write-offs including fines and fees related to past due amounts and the cost of lost materials waived and purged during the year are formally approved by management and reported to the Library Board on a periodic basis; and**
 - (b) review Library practices related to recording outstanding fines, provisions for uncollectible accounts, and write-offs into accounting and financial records.**
- 2. The City Librarian establish financial limits for staff fine and cost of overdue material waivers in the circulation system.**
- 3. The City Librarian implement a process providing for input of staff identification and the reason for a fine waiver when granted in the circulation system.**
- 4. The City Librarian consider the implementation of the following features for the proposed Library circulation system:**
 - automated controls for limiting waivers and fine overrides in accordance with staff access levels; and**
 - capability of generating more periodic reports related to collections and waivers including fine waivers over certain limits, cumulative fines waived by account, fine waivers by staff identification and the reasons for the waiver.**

5. **The City Librarian strengthen the process for reporting and follow-up on branch variances from established benchmarks for fine waivers and cost of overdue materials.**
6. **The City Librarian develop and implement a process for more frequent review of fine waivers and the cost of lost materials by branch managers and Library management.**
7. **The City Librarian should integrate cash registers and point-of-sale machines with the circulation system and strengthen cash management controls by implementing a process for more frequent review and reconciliation of cash collection reports with circulation system reports.**
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 - (a) **Accounting documents should be reviewed and approved by branch managers before being submitted to the Library Accounting Department;**
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 - (c) **Frequency requirements for cash counts and reconciliations should be developed for branches;**
 - (d) **Limits for the accumulation of funds should be established and funds collected should be deposited timely;**
 - (e) **Branch bank reconciliations should be reviewed by supervisors;**
 - (f) **Front desk staff schedules should be documented;**

- (g) Safes and vaults should be located in secure areas, kept locked when unattended, and combination locks changed periodically; and**
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 - (c) maintaining complete records of room bookings and outstanding room rentals by branches not using the centralized room booking system (CLASS).**
- 17. The City Librarian should maintain and monitor occupancy statistics for room rentals as a tool for planning.**
- 18. The City Librarian should ensure centralized branch use of the room booking system (CLASS) by the end of 2006.**
- 19. The City Librarian should ensure licences are acquired based on a review of expected use and actual use is monitored. Centralized room booking system (CLASS) licenses acquired to date should be reviewed and related maintenance costs should be negotiated with the vendor according to expected use.**
- 20. The City Librarian should improve controls on management of leases and lease rentals by:**
 - (a) developing a lease agreement process to track lease details including expiry dates to ensure timely lease renewals. In addition, all terms and conditions should be finalized prior to commencement of the agreement; and**
 - (b) obtaining post dated cheques in advance from tenants as a means of collecting lease rental revenue on a timely basis.**

- 21. The City Librarian should ensure lease rental write-offs are supported with formal management approval.**
- 22. The City Librarian should renegotiate photocopier rates with the vendor and evaluate other options including the coordination of the Library photocopy contract with the City.**
- 23. The City Librarian ensure existing and future contracts are reviewed and evaluated to take advantage of volume pricing by coordinating with the City.**
- 24. The City Librarian should review the photocopier maintenance request process to ensure service is not covered under the current maintenance agreement prior to payment. Prior period maintenance costs should be reviewed and any duplicate payments should be recovered accordingly.**
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- 30. The City Librarian should ensure the formal development of system control processes for:**
- granting staff access to library systems;**
 - maintaining access controls lists;**
 - ensuring access is provided to appropriate staff and periodically removing users not requiring system access; and**
 - enforcing password change controls on a regular basis.**
- 31. The City Librarian should ensure development of implementation plans for planned projects. Projects affecting library branches should be coordinated and communicated to branches and include an agreed upon implementation plan.**
- 32. The City Librarian should ensure the implementation of measures to promote the integrity and accuracy of inventory records, and minimize errors when receiving and processing returned material.**

BACKGROUND

The Toronto Public Library has 99 library branches throughout the City and operates two bookmobiles. Library branches are divided into five districts, North, South, East, West and Central, while bookmobiles serve 32 locations across the City. In 2005, annual expenditures were approximately \$170 million. The City of Toronto funds 92 per cent of library operations. The provincial and federal government fund four per cent, and the remaining four per cent is funded through internally generated revenues and other grants. Internally generated revenues for 2005 include:

- Fees and Fines (\$2,962,000)
- Room, Theatre and Equipment Rentals (\$536,000)
- Leased Space Rentals (\$803,000)
- Photocopy Revenue (\$455,000)

As of December 2005, the Toronto Public Library has 1.3 million registered patrons and a total inventory of 11 million items of which over one million items are in circulation at any given time. Total 2004 and 2005 expenditures on purchase of books and circulation material were approximately \$17 million and \$16 million respectively. As of January 2006, past due fines and fees amounted to approximately \$4.5 million. Approximately 260,000 library patrons owe money to the library in fines and overdue material.

After amalgamation, the Toronto Public Library integrated all of its branches into one circulation and inventory system known as DYNIX. In 2005, the Toronto Public Library initiated a project to install point-of-sale machines at all library branches to reduce cash handling and facilitate patron payments for overdue amounts and purchases with debit or credit cards.

As part of the Library's effort to improve the management and administration of fines and income from overdue materials, management has established benchmarks for measuring branch performance on the collection of fines. Various reports providing quarterly statistics on

collections and fine waivers have also been developed by management. On an annual basis, patrons who have not used their library card for over two years are purged from the system.

In 2003, library management executed a contract with a collection agency to assist in the collection of outstanding fines. With the exception of patrons younger than 18, all accounts with outstanding fines greater than \$50 and over 70 days past due are transferred to the collection agency for follow-up and collection. The collection agency is paid a commission of 22.5 per cent on amounts collected and waived. According to management, payment to a collection agency on both collected and waived amounts is a generally accepted industry practice as collection agency efforts are performed on all accounts transferred for follow-up. The decision to waive outstanding amounts rests with the Library, not with the collection agency.

During the period September 2003 through December 2005, the Library collected approximately \$415,000 in revenue from past due accounts and \$565,000 in borrowed materials from patrons whose accounts were referred to the collection agency. During that same period, the Library paid \$240,000 in commissions to the collection agency, including approximately \$20,000 in commissions on waived amounts of \$91,000.

DYNIX, the current library circulation system is nearing the end of its useful life and the Library has initiated steps to acquire a new system that in later phases of implementation will be integrated with point-of-sale machines and cash registers. The new circulation system (Integrated Library Management System) is expected to be fully implemented in 2007.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Our overall audit objectives were to assess the efficiency and effectiveness of controls over the collection of library fines and income. The audit was also designed to identify opportunities for improvement in related library operations and provide recommendations for cost savings.

Our audit methodology included the following:

- review of relevant regulations, directives, policies and procedures and current divisional practices;
- review of the Library Board, City Council and the Audit Committee reports;
- interviews with appropriate members of library staff;
- evaluation of management controls, practices and measures;
- site visits and physical observation of branch procedures;
- review of information technology governance standards;
- consultation with the Library's external auditors and the City's internal audit division;
- benchmarking other library systems; and
- other procedures deemed appropriate.

Our audit covered the period from January 2004 through December 2005 and was conducted in accordance with generally accepted government auditing standards. The review covered the following areas:

- Management and Administration of Fines, Fine Waivers and Write-offs
- Internal Controls Over Cash
- Room Booking and Equipment Rentals
- Management of Leases and Lease Rentals
- Management Controls Over Photocopy Revenue
- Information Technology Environment and Controls Review
- Other Issues

Details relating to each of the above are contained in the body of the report.

AUDIT RESULTS

A. MANAGEMENT AND ADMINISTRATION OF FINES, FINE WAIVERS AND WRITE-OFFS

A.1. Strengthening Write-off Procedures for Past Due Accounts

Fines are levied on past due items resulting from the failure of patrons to return borrowed library material on dates due. The Library follows-up on outstanding dues initially by voicemail followed by a written notice, and finally transferring overdue accounts exceeding \$50 to a collection agency (with the exception of accounts relating to patrons younger than 18).

Significant amounts in fines and costs of overdue materials are written off as non-recoverable each year. Write-offs are performed routinely through waivers at library branches, and through an annual library system purge of past due accounts. The annual system purge deletes patron accounts inactive for over five years with past due amounts greater than \$100. Patrons inactive for over two years with past due amounts under \$100 are also purged. Table 1 provides a summary of total amounts of approximately \$12.9 million purged and waived during 2004 and 2005. The amounts written off as a result of the annual system purge are in accordance with the Library policy to delete inactive accounts on which adequate follow-up has been done for collection and recovery of materials.

Table 1: Past Due Amounts Purged and Waived

(in 000's)

	<u>2005</u>	<u>2004</u>	<u>Total</u>
Annual System Purge	\$1,080	\$10,980*	\$12,060
Routine Daily Waivers	<u>372</u>	<u>493</u>	<u>865</u>
Total:	\$1,452	\$11,473	\$12,925

*The 2004 purge of \$10,980,000 was the first performed by the Library and includes all cumulative balances from prior years including \$6,600,000 incurred prior to amalgamation dating back to 1982.

As of January 2006, \$4.5 million was outstanding in fines and past due materials. According to management, \$1.5 million of the total outstanding amount is not collectible and will be written off in 2006.

Average annual write-offs from 1996 to 2005 exceed one million dollars. The majority of write-offs relate to the cost of lost library material. These materials represent approximately 6 to 10 per cent of annual purchases.

Management oversight of the write-off process requires strengthening. We noted no formal management approval required for amounts purged. We also noted no management follow-up on fine waivers and write-off amounts performed at the branches. As well, amounts written off through the annual system purge are not communicated to branches. We were informed by management that due to the lack of system capabilities, reporting of purged amounts by branches cannot be performed and that branches have no control on purged amounts. Reporting purge statistics by branch could have strengthened management oversight and assisted in developing programs to encourage patrons and reduce inactive accounts.

Another issue noted in relation to write-offs of past due accounts is that the Library Board approval limits for write-offs exceeding \$10,000 per account. This Library Board approval limit is for all types of write-offs including fines, room rentals and leasing. Normal library operations and circumstances would rarely result in instances of write-offs to a single account exceeding \$10,000.

Finally, in relation to past due amounts and the cost of overdue materials, waivers and amounts purged are not recorded in the accounting system. As such, the impact of write-offs is not reflected in the Library's financial statements.

Recommendation:

1. The City Librarian take steps to:

- (a) develop a process to ensure all write-offs including fines and fees related to past due amounts and the cost of lost materials waived and purged during the year are formally approved by management and reported to the Library Board on a periodic basis; and**
- (b) review Library practices related to recording outstanding fines, provisions for uncollectible accounts, and write-offs into accounting and financial records.**

A.2. Improve Controls Over Fine Waivers, Follow-up and Reporting

1. Controls Over Fine Waivers

During our review of library branches, we noted a lack of automated controls related to fine waivers. In general, fine waivers are left to the discretion of circulation desk staff, however, staff is advised to seek approval from supervisors for significant waivers. The understanding relating to the amount staff can waive and beyond what limits a supervisor should be consulted is not consistent throughout library branches and not documented. Reasons for fine waivers are not routinely entered by staff in the system. As well, all staff use a common ID to access the system, therefore, fines and cost of past due materials waived cannot be tracked as to the reasons and the staff who waived them. As a result, significant amounts of unexplained fine waivers are reflected in the system.

During our review of reports on fines and past due material waivers, we noted that over 50 per cent of library branches deviate from the established benchmark that allows them to waive up to eight per cent of collectible fines and the cost of past due materials. Fine waivers by some branches are as high as 30 per cent of collectible fines and cost of materials, and range from

\$10,000 to \$20,000 per year. As reported in Table 1, the total amount waived during 2004 and 2005 was approximately \$493,000 and \$372,000 respectively.

Recommendations:

- 2. The City Librarian establish financial limits for staff fine and cost of overdue material waivers in the circulation system.**
- 3. The City Librarian implement a process providing for input of staff identification and the reason for a fine waiver when granted in the circulation system.**

2. Follow-up and Reporting of Fine Waivers

We noted a lack of follow-up and monitoring related to branch benchmark comparisons. Statistical reports of collections and fine waivers are provided to branch managers on a quarterly basis. However, they are not sufficient and timely for such follow-ups. Branch managers are not aware of amounts waived until quarterly reports are provided. It appears that quarterly reports are not systematically reviewed and follow-up actions not taken by branch managers. As well, library management does not obtain feedback regarding significant variances from established benchmarks related to fines and the cost of past due materials.

In an effort to minimize the number of fines and lost material waivers, borrowing privileges are suspended after ten items or \$10 in fines are overdue or an item is more than six weeks overdue. However, the library circulation system does not maintain a record of past write-offs and waivers. Once an account is purged or waived, patron history is deleted and no flag or warning appears if the material is borrowed or fines are waived again for the same account. We noted several instances where the same accounts were referred for collection agency follow-up repeatedly during 2004 and 2005 for overdue amounts. We also noted several accounts where outstanding dues for fines and cost of lost overdue materials ranged from \$500 to \$1,000. We noted library policies do not provide for enforcement of borrowing limits in terms of amounts. A system warning would assist in facilitating proactive follow-up and explanation by the library

staff at the time new borrowings or waivers are requested by such patrons. We were informed by management that due to patron privacy issues history data cannot be maintained in the system.

DYNIX, the current circulation system is nearing the end of its useful life. We were informed that the new circulation system will have better controls and reporting capabilities. The new system is expected to be implemented in 2007.

Addressing recommended improvements in controls noted above will result in an overall reduction of fine waivers and annual purge amounts. A 10 to 20 per cent reduction could result in additional revenues of up to \$100,000 to \$300,000 annually.

From a patron service perspective, improvement in controls over fine waivers and purges will provide an incentive for patrons to return library materials. When library materials are returned in a timely manner, service is improved as more materials become available for circulation to other patrons.

Recommendations:

- 4. The City Librarian consider the implementation of the following features for the proposed Library circulation system:**
 - automated controls for limiting waivers and fine overrides in accordance with staff access levels; and**
 - capability of generating more periodic reports related to collections and waivers including fine waivers over certain limits, cumulative fines waived by account, fine waivers by staff identification and the reasons for the waiver.**

- 5. The City Librarian strengthen the process for reporting and follow-up on branch variances from established benchmarks for fine waivers and cost of overdue materials.**

- 6. The City Librarian develop and implement a process for more frequent review of fine waivers and the cost of lost materials by branch managers and Library management.**

B. INTERNAL CONTROLS OVER CASH

B.1. Lack of Integration of the Library Circulation System, Point-of-sale Machines and Cash Registers

Point-of-sale machines, cash registers and the circulation system are not integrated. This lack of integration increases the risk of error. For instance, a fine collected at a point-of-sale machine or cash register may not be reflected in the circulation system. Lack of integration also results in numerous manual activities and records to reconcile various components in the process. For example,

- Separate receipts are printed from the circulation system and the cash register or point-of-sale machine resulting in two receipts per customer;
- Cash receipts per register are recorded in daily summary reports then summarized into weekly and monthly summary reports submitted to the Library accounting staff; and
- Monthly summary reports are manually accumulated into quarterly reports and reconciled with the circulation system.

As the reconciliation of the quarterly reports with the circulation is performed quarterly, it is difficult to identify reasons for variances between cash register entries and the circulation system. We noted management has set a 99 per cent benchmark for accuracy of records between the manual cash collection reporting system and the circulation system. We noted branches where the variance between cash collection reports and the circulation system exceeded 10 per cent and the cumulative amount unreconciled in individual branches exceeded \$7,000 in 2004 and \$3,000 in 2005. According to management, part of the variance may relate to data entry

errors and may compensate for differences in one account with the excess reflected in another account. We were unable to determine the amount of cash differences compensated by data entry errors. The total approximate difference during 2004 and 2005 between cash register receipts and circulation system report were approximately \$75,000 and \$54,000 respectively.

Lack of integrated processes, on-going review and reconciliation are the primary cause of the variances identified above. A daily reconciliation process would detect and prevent large differences between cash register and circulation system reports. Integration of the circulation system with cash registers and point-of-sale machines will improve efficiency and accuracy in cash collection. Integration will also minimize variances and save staff time involved in preparing reconciliations and investigating variances. A 50 per cent reduction in cash variances would result in annual savings of \$25,000 in current cash differences.

Recommendation:

- 7. The City Librarian should integrate cash registers and point-of-sale machines with the circulation system and strengthen cash management controls by implementing a process for more frequent review and reconciliation of cash collection reports with circulation system reports.**

B.2. Improve Cash Controls at Branch Libraries

As part of our review, we conducted site visits and reviewed records and documentation at selected branches. Branches were selected based on size, fines, past due materials waived during previous years, and volume of cash collected.

We conducted a detailed documentation review at the Toronto Reference Library and the North York Central Library. Site visits were also conducted at Cedarbrae Public Library and Fairview Mall Drive Library. Observations noted are discussed below:

- Some branch collection reports were not reviewed or authorized by branch managers before being forwarded to the library accounting department for monthly consolidation;
- In many instances, there are differences between branch collection reports and the corresponding daily cash register tapes. In some instances, daily cash register tapes are adjusted manually with or without variance explanations, and variances are often not reported to accounting staff for review and follow-up;
- Variances are not consistently followed up with responsible branches by the library accounting department. When variances were investigated, the cause was undeterminable due to the time that had elapsed. Policies and procedures addressing proper handling of unresolved variances do not exist;
- Cash is not removed from cash registers and reconciled on a daily basis. In large branches, cash counting and reconciliation is conducted two to three times per week. In small branches, cash counts and reconciliations are conducted once per week or in some cases monthly. Delays in cash counts and reconciliations result in difficulties in explaining and resolving variances;
- In all instances, branch bank reconciliations received no supervisory review; and
- Front desk staff schedules are developed but not maintained. Lack of proper record keeping may result in difficulties in tracking staff when discrepancies in cash collection and waiver of fines are identified.

B.3. Strengthen Safeguarding Controls Over Cash

We noted the following issues related to strengthening safeguards over cash:

- In one instance, we observed cheques totalling approximately \$28,000 left in an unlocked safe. The safe was unlocked during business hours and accessible to all accounting staff;

- In another instance, we noted a safe located in an open area accessible to the public and operated routinely during public visiting hours;
- In our sample of branch visits, we noted branches do not maintain a list of authorized persons with access to the safe or secure areas; and
- Safe combinations are not changed periodically. In one instance, we noted the safe combination had not changed in seven years.

B.4. Improve Controls Over Petty Cash

During our review of 25 branch library petty cash audits conducted by Library accounting staff during 2005, we noted the following:

- In 14 branches, petty cash was not secured or locked in a safe location;
- In 16 branches, appropriate cash forms were not used;
- In 11 branches, TTC tokens were not secured and token logs were not maintained; and
- In 7 branches, vouchers were not signed for cash receipts.

Similar findings were also reported in 2004 petty cash audits carried out by the Library Accounting Department.

According to management, appropriate steps have been taken to address the issues reported above. We did not take steps to verify management's assertions, as they were brought to our attention later in the audit process.

Recommendation:

8. The City Librarian implement the following cash control policies and procedures:

- (a) Accounting documents should be reviewed and approved by branch managers before being submitted to the Library Accounting Department;**
- (b) Variances on cash collection reports should be followed up by branch staff;**
- (c) Frequency requirements for cash counts and reconciliations should be developed for branches;**
- (d) Limits for the accumulation of funds should be established and funds collected should be deposited timely;**
- (e) Branch bank reconciliations should be reviewed by supervisors;**
- (f) Front desk staff schedules should be documented;**
- (g) Safes and vaults should be located in secure areas, kept locked when unattended, and combination locks changed periodically; and**
- (h) Policies and procedures related to handling petty cash should be enforced.**

B.5. Lack of Timely and Efficient Bank Deposit Procedures

Cash collected at the Toronto Reference Library Access Services Department including funds collected from coin-operated copy machines is not directly deposited into the bank. Cash is first transferred to the accounting department where it is subsequently deposited into the bank. The bank deposit process can be simplified and made more efficient by allowing Access Services to make the bank deposit. We also noted the process for formally documenting and acknowledging

fund transfers from Access Services to the Accounting Department does not exist. We were informed of occasional variances between bank deposit slips and actual funds deposited. Bank tellers adjust deposit slips to reflect actual funds deposited, however, discrepancies are not followed up. In the absence of a formal protocol for fund transfer between the Access Department and the Library Accounting Department, accountability for these variances cannot be established.

Recommendation:

- 9. The City Librarian should take steps to either allow for the direct bank deposit of funds by the Access Services Department at the Toronto Reference Library or develop a formal process for cash transfer between the Access Services Department and Accounting Department.**

B.6. Lack of Separation of Duties and Acknowledgement of Receipt of Cheques

The issue of library past due follow-up reminders often results in the Library receiving significant amounts of cheques. These cheques can total up to \$500 a day. These funds are received by staff at the Library Information Technology Department who also update Library records and transmit funds received to the accounting department for deposit. This process does not provide for proper separation of duties between staff receiving funds and updating system records. Significant risk exists when the person receiving funds also updates accounting records.

We also noted that an appropriate acknowledgement process does not exist between the receiver and the depositor of funds. The lack of a receipt protocol between these departments may result in lack of detection of funds lost during the fund transfer process.

Recommendations:

- 10. The City Librarian should review the cheque receipt and recordkeeping process to ensure adequate separation of duties exists between staff receiving funds and staff updating accounting records.**
- 11. The City Librarian should ensure procedures for transfer of funds includes a protocol for acknowledging receipt of funds.**

B.7. Overdue Account Collection Reminders

We noted that in the final reminder sent to delinquent patrons for payment of overdue fines and items, a warning is included stating “unresolved accounts will be forwarded to the collection agency and a \$10.00 charge will be added” to their account. The warning is included on the back of the reminder and is easily overlooked. This message should be more appropriately placed prominently on the front side of the reminder to ensure readers notice the warning. Displaying this note prominently may reduce the number of accounts referred to the collection agency and increase the number of patrons clearing their dues voluntarily. A 30 per cent reduction in collection agency referrals could result in cost savings of \$30,000.

Recommendation:

- 12. The City Librarian should ensure that the delinquent patron reminder statement regarding transfer of overdue accounts to a collection agency be displayed prominently on the front of the notice so that readers are more likely to read the warning.**

B.8. Collection Agency Controls and Procedures Require Improvement

Currently collection agency invoices and total monthly circulation system reports are compared in relation to total monthly amounts collected and amounts waived. Variances are ignored and

considered a result of differences in month-end closing dates between collection agency invoices and library records.

During our review of collection agency payment transactions, we noted several entries shown as cash collected in collection agency invoices, but no evidence to support cash was received by the library. Library staff was unable to identify receipt of payments identified on collection agency invoices. Further review identified similar transactions during prior months for which accounting records did not reflect receipt of payments listed on collection agency invoices. We were informed that management has investigated these transactions and a system error has been identified and is being investigated. In the absence of any evidence related to the receipt of such payments or materials, both in the circulation system and accounting records, we are unable to conclude that these collections and respective commissions paid to the collection agency were valid.

Recommendation:

- 13. The City Librarian should implement a process for verification of collection agency invoices ensuring variances are investigated, and incorrect entries are adjusted accordingly. Reported instances should be investigated and excess payments, if any, made to the collection agency in the past should be recovered.**

C. ROOM BOOKING AND EQUIPMENT RENTALS

C.1. Improvements Required in Recording and Collecting Outstanding Rental Revenue

The Library provides room space and equipment to organizations holding meetings and functions on library premises. Rooms are booked through the centralized room booking system (CLASS) for branches or directly by branch staff not on the centralized room booking system.

1. Controls over Booking of Library Facilities and Validation of Corporate Status

Room rates for not-for-profit organizations are \$10 to \$15 per hour. For-profit organizations are charged \$90 per hour. Corporate status is not validated formally by Library booking staff resulting in the risk that for-profit organizations may get booked at not-for-profit rates, which are substantially lower. In order to ensure correct corporate status, validation should be conducted on a random basis or proof of not-for-profit status should be obtained when the room booking is made.

Recommendation:

14. The City Librarian should review the process for formally validating the corporate status of organizations applying for room booking as not-for-profit.

2. Controls on Accounting and Collection of Room Booking Revenue

We noted that outstanding rent revenue for room bookings are not recorded in the accounting system. As a result, outstanding room booking amounts are not reflected in the financial statements.

We also noted improved controls on accounting, recovery and follow-up on rental revenue are required. Payments for room bookings and equipment rentals are not collected in advance. As a result, a significant amount of total rental revenue remains outstanding. Total rent receivables as of December 2005 was approximately \$87,000 of which \$33,500 was outstanding over four months. A portion of rent receivable (\$15,000) is from bookings that occurred from 1999 to 2004. According to management, this amount is uncollectible and will be written off in the near future.

Other issues noted during our review of controls on accounting and collection of room booking revenue are noted below:

- For rooms booked directly by branch staff, records of outstanding balances for room bookings are not maintained;
- We noted that room booking history was not available. We, therefore, were unable to determine whether recorded receipts represent all bookings; and
- Room booking occupancy statistics are not maintained and monitored.

Better management of the rental process including centralized use of the CLASS system, managing and monitoring rental revenues and room occupancy may result in additional revenue, which could be used to improve and enhance services provided to library patrons.

Recommendations:

- 15. The City Librarian should ensure that outstanding balances for room bookings are recorded in the accounting system and reported in the financial statements.**
- 16. The City Librarian should develop policies and procedures for:**
 - (a) collecting advance payment for room bookings;**
 - (b) ensuring timely follow-up on outstanding room rentals; and**
 - (c) maintaining complete records of room bookings and outstanding room rentals by branches not using the centralized room booking system (CLASS).**
- 17. The City Librarian should maintain and monitor occupancy statistics for room rentals as a tool for planning.**

C.2. Delays in Implementing Centralized Room Booking System (CLASS)

We noted delays in implementing the centralized room booking system (CLASS) acquired in 1999. Only facilities in the North York District and the Toronto Reference Library centralized

prior to amalgamation have implemented room booking through the CLASS system. These facilities comprised approximately 30 per cent of the Library's available room rental facilities. The decision to fully centralize the system-wide room bookings throughout the library branches was made in 2005. According to management, centralized room booking will be fully implemented by the end of 2006.

The Library purchased ten simultaneous use CLASS licenses. We noted that current normal demand for the use of the CLASS system is in the range of six simultaneous users. The remaining four licenses are not used resulting in a cumulative total cost to date of \$7,500. The cost of the additional four licenses could have been avoided by better estimating the expected use of the system at the time of purchase or by expanding the system as planned after the acquisition of licenses.

Recommendations:

- 18. The City Librarian should ensure centralized branch use of the room booking system (CLASS) by the end of 2006.**

- 19. The City Librarian should ensure licences are acquired based on a review of expected use and actual use is monitored. Centralized room booking system (CLASS) licenses acquired to date should be reviewed and related maintenance costs should be negotiated with the vendor according to expected use.**

D. MANAGEMENT OF LEASES AND LEASE RENTALS

D.1. Improvements Required in Timely Renewal and Execution of Lease Agreements

The Toronto Public Library owns two rental properties (40 St. Clair and 40 Orchard View). Each property has a number of rental suites. We observed the following during our review of lease agreements and the related rent collection process:

- Lease agreements do not exist for all rentals. For those with current agreements, they are not executed in a timely manner. Some were executed months after occupancy and others up to a year after the commencement of the lease. We also noted several details in agreements reviewed not finalized prior to the lease commencement date. For example, conditions related to shared operating costs, lease closing dates, and valuation procedures for in kind payments were not clearly defined.

- From 1999 to 2004, Library tenants had no updated lease agreements after the expiry of the prior lease. New leases did not commence until December 2004 for some and 2005 for others. The lack of a current lease agreement resulted in rent collection issues in a few instances. As of December 31, 2005, rent in arrears totalled \$44,000 including approximately \$31,000 in accounts over 90 days past due. During our review, Library management followed up on many of these accounts and made partial recoveries and adjustments totalling approximately \$24,000 during the first quarter of 2006.

We noted two other issues related to our review of Library lease agreements.

First, the Library does not maintain the practice of obtaining in advance postdated cheques for monthly rent from tenants. Secondly, there have been several write-offs in recent years for various tenants. We noted two write-offs totalling approximately \$23,000 did not have formal sign-off approvals.

Recommendations:

20. The City Librarian should improve controls on management of leases and lease rentals by:

- (a) **developing a lease agreement process to track lease details including expiry dates to ensure timely lease renewals. In addition, all terms and conditions should be finalized prior to commencement of the agreement; and**

(b) **obtaining post dated cheques in advance from tenants as a means of collecting lease rental revenue on a timely basis.**

21. The City Librarian should ensure lease rental write-offs are supported with formal management approval.

E. MANAGEMENT CONTROL OVER PHOTOCOPY REVENUE

E.1. Copy Costs Should be Renegotiated

The Library pays approximately \$1 million per year for leasing and maintaining 176 copiers. This includes costs for copiers provided to patrons and Library staff. Average annual photocopier revenue for 2004 and 2005 was approximately \$475,000.

The Library initially signed an agreement with a photocopier vendor in May 2000 for the period October 2000 to June 2006. In October 2003, the contract was renewed and extended to January 2008. The per copy charge built into the minimum monthly payment remained unchanged at approximately 7.5 cents per black-and-white copy (excluding paper) with an annual volume of approximately 9 million copies. Although there has been a general market decline in photocopy charges in recent years (currently five cents or less including the cost of paper), contracted rates remained unchanged with the vendor during the period of the earlier agreement and when the agreement was renewed in October 2003.

In order to determine the feasibility of consolidating photocopy contracts with the City, we reviewed a number of City photocopy contracts. We noted a significant difference between the rates paid by the City and the Library. We calculated a cost difference of up to \$500,000 in photocopy charges when City rates are applied. Another option would be for the Library to renegotiate the current contract. We estimate a reduction of two to three cents per copy from the current contract price could save approximately \$180,000 to \$270,000 annually.

Recommendations:

- 22. The City Librarian should renegotiate photocopier rates with the vendor and evaluate other options including the coordination of the Library photocopy contract with the City.**
- 23. The City Librarian ensure existing and future contracts are reviewed and evaluated to take advantage of volume pricing by coordinating with the City.**

E.2. Controls Over Photocopier Maintenance Payments Should be Improved

During our review of monthly photocopier payment invoices, we noted certain control issues in the payment of photocopier maintenance and service charges. For example, we noted a lack of centralized management approval for photocopier maintenance charges incurred as a result of direct service calls made by branch libraries. The lack of centralized management approval of service calls results in the risk of paying service charges that may already be covered under the current vendor maintenance agreement.

Recommendation:

- 24. The City Librarian should review the photocopier maintenance payment process to ensure service is not covered under the current maintenance agreement prior to payment. Prior period maintenance costs should be reviewed and any duplicate payments should be recovered accordingly.**

E.3. Controls on Charge Card Machines (“Mini-Till”) Should be Improved

Charge card machines known as “Mini-Till” machines are installed at each library branch. These machines are used to add value to library charge and copy cards. These cards can be used to pay photocopier charges, book purchases, and fines and fees. A maximum of \$999 can be added to copy and charge cards through “Mini-Till” machines. “Mini-Till” machines are

activated at the beginning of each day and remain activated during business hours. These machines are co-located with blank copy cards at front desk counters for staff use. It is a quick and easy process to add value to copy cards. The location of these cards at front desk counters results in the risk of value added to copy cards by unauthorized individuals.

We also noted that library branches do not reconcile “Mini-Till” balances with the daily cash collection. We noted several instances where Mini-Till cash collected did not reconcile with cash collection reports submitted to accounting. Discrepancies between “Mini-Till” balances and cash collected per cash register summary reports cannot be identified and corrected unless a daily reconciliation occurs.

Recommendations:

- 25. The City Librarian should reduce the current charge card machine (“Mini-Till”) maximum value (currently \$999), and ensure charge card machines and library cards are maintained in a secure location where cards cannot be accessed and charged by persons other than library staff.**
- 26. The City Librarian should direct branches to reconcile charge card machine (“Mini-Till”) reports with daily cash collection reports.**

F. INFORMATION TECHNOLOGY ENVIRONMENT AND CONTROLS REVIEW

We reviewed in general terms the control environment for two major information technology systems, the library circulation system (DYNIX) and the centralized room booking system (CLASS). The following were key control issues noted during our review.

F.1. Underutilised DYNIX Circulation System Licenses

Currently, the Library maintains 2,250 simultaneous use licences for the DYNIX circulation system. We noted the average number of simultaneous users on the system at any given time

ranged from 900 to 1000. We were informed by Library information technology staff that this range is normal and the maximum simultaneous use of the system is generally around 1000 users. According to management, a greater number of licenses was acquired in anticipation of increased use of the DYNIX catalogue search feature. However, in 2000 the Library made the catalogue available on the internet, which resulted in a significant decline for the use of DYNIX catalogue search capability.

In addition to software license costs, the Library paid an additional \$30,000 in annual maintenance charges. The cumulative maintenance cost for underutilised licenses for the past five years is approximately \$150,000. DYNIX is nearing the end of its useful life and the Library has issued an RFP for a new circulation system to be implemented in 2007. All future acquisitions should be evaluated in terms of expected use of licenses before acquiring the system and usage should be monitored on an ongoing basis.

F.2. DYNIX Circulation System Access Control Weaknesses

We noted Library circulation system controls could be improved. For example, data can be accessed and deleted from system records without an adequate audit trail. The effect of this system weakness is that an account can be updated to reflect a payment and later deleted without an audit trail resulting in the risk of inaccurate recordkeeping and possible misappropriation of funds.

Recommendation:

- 27. The City Librarian should review current controls in the circulation system and ensure data integrity is maintained and adequate records exist for changes made to system records.**

F.3. Price Change Control Documentation Should be Strengthened

Prices for room booking and equipment rentals are maintained in the centralized booking system (CLASS). Overdue fine rates for various categories of items and patron classes are maintained in the circulation system (DYNIX). These prices are used to calculate customer or patron dues for room rentals and fines. We noted formal documented price change control processes do not exist and related documentation is not prepared or maintained.

We were informed that management intends to develop and implement a revised change control process with the upcoming implementation of the proposed integrated library system mentioned earlier in this report. We understand initiatives for implementing and supporting the proposed integrated library system are in a preliminary stage. A full and complete implementation will require a reasonable period of time. As such, change control documentation should be prepared and maintained on an ongoing basis for all current information technology applications.

The Library's external auditors pointed out similar weaknesses in change controls processes in their 2004 and 2005 audit reports.

Recommendation:

28. The City Librarian should ensure the price change control process is formally documented and all price changes in the system adhere to a formal written process.

F.4. Collection Agency Data Transfer Protocol Should be Improved

The Library transfers account details of delinquent patrons electronically to a collection agency for follow-up. New delinquent accounts are transferred to the collection agency on a weekly basis, and updates on payments and waivers are transmitted daily. Data is transferred to the collection agency in the form of plain text and is not encrypted. The electronic transfer of account information includes personal patron information such as patron names, addresses and

phone numbers. Without proper encryption of this information, there is the risk of unauthorized access to personal patron information.

Recommendation:

- 29. The City Librarian should take steps to minimize the risk of unauthorized access to patron information transmitted to the collection agency. Steps should be taken to ensure the use of secure methods for transmitting data such as data encryption and secure logins.**

F.5. System Access Control, Monitoring and Documentation Should be Improved

We reviewed the list of staff with administrative access to the DYNIX circulation system and the centralized booking system (CLASS). Certain staff was identified that do not require administrative access to the circulation system, and many have not accessed either system for a significant period of time. We noted that a formal process for periodic review of system access control lists does not exist.

In addition, we noted that system access approvals are not formally documented. As well, approval documentation for staff access to the DYNIX circulation system and CLASS centralized room booking system does not exist.

The Library's external auditors pointed out similar weaknesses in access control practices in their 2004 and 2005 audit reports.

At the completion of our audit, we were notified that action has been taken on the access control issues raised during the audit.

F.6. Password Change Control Processes Require Strengthening

A formal periodic password change control system is not in effect or enforced by the Library information technology systems or staff. There is a risk of compromising data security and unauthorized access to library systems as a result of this system control weakness.

Recommendation:

30. The City Librarian should ensure the formal development of system control processes for:

- **granting staff access to library systems;**
- **maintaining access controls lists;**
- **ensuring access is provided to appropriate staff and periodically removing users not requiring system access; and**
- **enforcing password change controls on a regular basis.**

G. OTHER ISSUES

G.1. Unnecessary Monthly Charges for Point-of-sale Machines

In 2005, the Library initiated a project to install point-of-sale machines to assist patrons in paying for services and fines with debit and credit cards. By August 2005, 102 machines were acquired and 98 were installed in almost all library branches. As of January 2006, approximately half of the point-of-sale machines were in operation. The remainder of branch staff have not yet received training and as a result, machine activation has been delayed. Although half of the machines were not operational, they had been installed and monthly charges incurred. By December 2005, the Library paid approximately \$38,500 for machines not yet in operation. A complete project plan including a point-of-sale machine implementation plan had not been prepared resulting in charges for non-operational point-of-sale machines across all library

branches. These charges could have been avoided with better coordination and a formal implementation plan.

Recommendation:

- 31. The City Librarian should ensure development of implementation plans for planned projects. Projects affecting library branches should be coordinated and communicated to branches and include an agreed upon implementation plan.**

G.2. Inventory Control Practices Should be Strengthened

During our discussions with senior management related to fine waivers and the cost of past due materials, we were informed that many recordkeeping irregularities and fine waivers are a result of items returned by patrons and not scanned properly into the circulation system due to staff or system errors. We did not review the inventory control practices at the Library as this was outside of our audit scope. However, Library management should review inventory control practices including the process for receiving items returned by patrons.

Recommendation:

- 32. The City Librarian should ensure the implementation of measures to promote the integrity and accuracy of inventory records, and minimize errors when receiving and processing returned material.**

CONCLUSION

The objective of this review was to assess whether the Toronto Public Library has appropriate and effective management controls over cash collection and related processes. Our review focused on the collection of fees and fines, room booking revenue, lease space rentals and photocopy revenue including the information technology systems and processes relating to these areas.

The Toronto Public Library has made significant progress in standardizing operating procedures and practices throughout library branches in all districts since amalgamation. Our review, however, identified a number of areas requiring strengthened management controls and improved system support, some of which are currently being addressed by management. This review also identified a number of opportunities for the Library to improve collections and enhance revenues.

Addressing the recommendations in this report will provide for more effective management of City resources, enhance the overall effectiveness of cash collection and recovery processes and provide service level improvements to patrons of the Toronto Public Library System.

TORONTO PUBLIC LIBRARY
Auditor General’s Fines and Income Review
Management Response and Action Plan

Recommendation	Management Response	Action Plan
<p>1. The City Librarian take steps to:</p> <p>(a) develop a process to ensure all write-offs including fines and fees related to past due amounts and the cost of lost materials waived and purged during the year are formally approved by management and reported to the Library Board on a periodic basis.</p> <p>(b) review Library practices related to recording outstanding fines, provisions for uncollectible accounts, and write-offs into accounting and financial records.</p>	<p>1(a) Agree. Each year, the Board reviews and approves the Circulation Use Policy, which includes the policy for purging and waiving fines when appropriate. Other write-offs are done according the approved Financial Control Policy.</p> <p>It should be noted that some of the predecessor libraries never purged fines and as a result came into amalgamation with significant uncollected debts which are not recoverable. The 2004 purge was the first purge performed by the Library, during which \$6.6 million of uncollectible fines, incurred prior to amalgamation and going as far back as 1982, were removed from the system;</p> <p>(b) Disagree. The Library’s Dynix system is used to track each patron account, including overdue fines, and any monies collected is then recorded in the financial system as revenues. Only after all collection methods are exhausted, including suspending service, overdue notifications and use of a collection agency where appropriate, and a period of time has passed, are outstanding accounts purged from Dynix. While the recommendation is based on sound accounting theory, the external auditors, Ernst & Young, have reviewed and accepted the current practices and recognize the operational reasons why overdue fines are managed the way they are. This method of managing fines is also</p>	<p>To increase transparency, reports on waiving, purging and write-offs will be provided to the Board annually for information. In addition, management will ensure that all write-offs are formally approved.</p>

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	standard practice for libraries in North America. As noted in 1(a), to increase transparency, reports on waiving, purging and write-offs will be provided to the Board annually for information.	
2. The City Librarian establish financial limits for staff fine and cost of overdue material waivers in the circulation system.	2) Agree. An overall waive benchmark has been established, and branch performance is monitored against this benchmark.	With the introduction of the new ILS in 2007, the option of implementing a financial limit for waives, beyond which Supervisor approval is required, will be reviewed.
3. The City Librarian implement a process providing for input of staff identification and the reason for a fine waiver when granted in the circulation system.	3) Agree.	Staff already adds messages in the customer record around significant waiving of fines. With the introduction of the new ILS in 2007, the Library will investigate options for increasing documentation on waives. Options will include staff identification, setting dollar limits and creating pre-defined check-lists of reasons.
<p>4. The City Librarian consider the implementation of the following features for the proposed Library circulation system:</p> <ul style="list-style-type: none"> - automated controls for limiting waivers and fine overrides in accordance with staff access levels; and - capability of generating more periodic reports related to 	<p>4) Agree.</p> <p>Training is provided to staff on how to handle waivers. Benchmarks and trend analysis help to monitor and control the level of waivers by branch.</p> <p>The new ILS will have greater reporting capability but the cost of additional reports and monitoring, and the</p>	<p>The new ILS will provide greater granularity for access controls, and the option of implementing automated controls over waivers based on staff levels, will be addressed once the new system is implemented in 2007.</p> <p>The new ILS will provide the ability to generate more</p>

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collections and waivers including fine waivers over certain limits, cumulative fines waived by account, fine waivers by staff identification and the reasons for the waiver.	dedication of more resources to this function, will need to be balanced against any potential benefits.	frequent reports. The ability to report on more data on waivers will be investigated.
5. The City Librarian strengthen the process for reporting and follow-up on branch variances from established benchmarks for fine waivers and cost of overdue materials.	<p>5) Agree. Library staff currently receives quarterly reports about the waiving of fines by branch. The information on the reports is reviewed on a system-wide, regional and branch basis with follow-up as required. Branch supervisors and managers are expected to monitor those reports and address waiving beyond the benchmarks.</p> <p>The waive benchmark represents an overall target for the system as a whole. With an overall target waive benchmark, some branches are expected to be higher and others lower. Branches with waivers above the benchmark include Parkdale, Thornccliffe, Parliament, Albion, York Woods and St. James Town. The measurement of performances is based on progress towards achieving the overall target, and there have been improvements in each of the last 3 years.</p>	Efforts will be made to document the staff follow-up process for waivers in excess of the benchmarks.
6. The City Librarian develop and implement a process for more frequent review of fine waivers and the cost of lost materials by branch managers and Library management.	6) Agree. The new ILS will have greater reporting capability but the cost of additional reports and monitoring, and the dedication of more resources to this function, will need to be balanced against any potential benefits.	The new ILS will provide the ability to generate more frequent reports. The ability to report on more data on waivers will be investigated.
7. The City Librarian should integrate cash register and point-of-sale machines with the circulation system and strengthen cash management controls by implementing a process for more frequent review and reconciliation of cash collection reports with circulation system reports.	7) Agree. The introduction of the new ILS will offer an opportunity to integrate the cash handling equipment and processes. The ILS project budget did not include this cost, which is expected to be significant, and funding for this will need to be balanced against other priority capital projects.	An assessment will be made of the cost of implementing integrated cash handling equipment and processes, and the potential pay-back period for this investment. Integration may occur on a phased approach or at a later date.

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	<p>The reconciliation of cash collections reports to the circulation system reports is currently resource intensive to perform, and therefore done quarterly. It should be noted that the Library achieved an overall accuracy of 98.2% in 2005 (97.5% in 2004), slightly below the benchmark of 99%.</p>	<p>The implementation of the new ILS in 2007 will provide better reporting capabilities and the possibility of more frequent reconciliations will be assessed at that time.</p>
<p>8. The City Librarian implement the following cash control policies and procedures:</p> <p>(a) Accounting documents should be reviewed and approved by branch managers before being submitted to the Library Accounting Department;</p> <p>(b) Variances on cash collection reports should be followed-up by branch staff;</p> <p>(c) Frequency requirements for cash counts and reconciliations should be developed for branches;</p> <p>(d) Limits for the accumulation of funds</p>	<p>8(a) Agree. The current Management and Cash Control procedures, S 2.4.1-G, Cash Collection, require that month branch receipt reports be approved by branch manager.</p> <p>(b) Agree. The procedure to handle cash variances is documented in Cash Register and Coin Machines, S 2.4.2, Report Error. All variances greater than \$20 require review by branch and Accounting staff. Overages and shortages are a normal part of operations in any cash handling business and for all branches, the total net variance in 2004 was \$660 and 2005 was \$930.</p> <p>(c) Agree. The cash handling policy requires cash count reconciliations which vary from weekly to three times per week, based on the amount of cash handled in the branch.</p> <p>(d) Agree.</p>	<p>Branch staff will be reminded of the necessary approvals and Accounting staff will be instructed to check for proper approval.</p> <p>Staff will be reminded of the requirement to document all reviews of variances where required.</p> <p>In 2006, the Library will undertake a review of cash handling in all branches and develop a more formal frequency requirement for cash count and reconciliation, taking into account the size and activity of each branch</p> <p>By July 2006, limits will be set</p>

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<p>should be established and funds collected should be deposited timely;</p> <p>(e) Branch bank reconciliations should be reviewed by supervisors;</p> <p>(f) Front desk staff schedules should be documented;</p> <p>(g) Safes and vaults should be located in secure areas, kept locked when unattended, and combination locks changed periodically; and</p> <p>(h) Policies and procedures related to handling petty cash should be enforced.</p>	<p>(e) Agree.</p> <p>(f) Agree.</p> <p>(g) Agree.</p> <p>(h) Agree. The Management and Control of Cash procedures, S. 1.3, Petty Cash System, contains the petty cash policy and procedures. Approximately 20% of petty cash floats are audited every year. In 2005, the audit revealed a net shortage of petty cash amounting to \$70.47.</p>	<p>for Accounting and each branch.</p> <p>This was implemented in March 2006.</p> <p>The recently approved Records Retention By-law requires staff schedules to be retained for one year.</p> <p>In the third quarter of 2006, a survey will be done on the location of all safes. Instructions will be issued on keeping the safes locked when unattended, and combinations will be changed every 2 years.</p> <p>The results of the petty cash audits were sent to every branch, with a reminder of the appropriate petty cash control procedures.</p>
<p>9. The City Librarian should take steps to either allow for the direct bank deposit of funds by the Access Services Department at the Toronto Reference Library or develop a formal process for cash transfer between the Access Services Department and Accounting Department.</p>	<p>9) Agree. Overages and shortages are a normal part of operations in any cash handling business. For 2004 and 2005, there have been a total of 14 discrepancies averaging less than \$5 each.</p>	<p>Accounting staff, located in the same building, already go to the bank to make frequent deposits. In June 2006, a formal sign-over process between Access and Accounting staff will be implemented.</p>
<p>10. The City Librarian should review the cheque receipt and recordkeeping process to ensure adequate separation of duties exists between staff receiving funds and staff updating accounting records.</p>	<p>10) Agree. It should be noted that this lack of segregation of duties is a problem only in the Information Technology department. Also, staff are updating patron records on the Dynix system, and not on the accounting records. The financial systems are separate from the Dynix system, and</p>	<p>In June 2006, the process will be reviewed to determine how internal controls can be strengthened by separating duties.</p>

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	only finance staff have access to the finance systems.	
11. The City Librarian should ensure procedures for transfer of funds includes a protocol for acknowledging receipt of funds.	11) Agree.	A log is kept of all cheques received by the IT department, and a copy of the log is being sent with the cheques to the Accounting department, who check for completeness and, beginning in June 2006, will acknowledge receipt of the funds.
12. The City Librarian should ensure that the delinquent patron reminder statement regarding transfer of overdue accounts to a collection agency be displayed prominently on the front of the notice so that readers are more likely to read the warning.	12) Agree.	This revised notice will be in place in June 2006.
13. The City Librarian should implement a process for verification of collection agency invoices ensuring variances are investigated, and incorrect entries are adjusted accordingly. Reported instances should be investigated and excess payments, if any, made to the collection agency in the past should be recovered.	13) Agree. Library staff investigation has determined probable causes for the variances, including a system problem related to return of library materials in the book drops by patrons referred to the collection agency. In those cases, the library materials had been returned to the Library, though the book drop return transaction was not reported to the collection agency. When the Library subsequently reported a zero balance for the accounts, the collection agency adjusted its records to reflect the Library's records. In those instances there was no excess payment.	The Library will investigate variances on a monthly basis and adjust incorrect invoice entries, starting in June 2006. The new ILS will be tested to confirm that the problem has been fixed.
14. The City Librarian should review the process for formally validating the corporate status of organizations applying for room booking as not-for-profit.	14) Agree. The current policy requires applicants applying for the not-for-profit rate to complete a form and confirm their non-profit status. Charities and registered not-for-profit organizations must provide their charitable number of their corporation number. For all other not-for-profit organizations who are not registered corporations, which include most community groups, City Legal has confirmed that there is no way to verify their status apart	In June 2006, staff will be reminded of the need to complete the not-for-profit forms, and to keep them on file.

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	<p>for asking them to confirm it.</p> <p>In addition the information collected, the Library staff does additional due diligence as required, to check on a group's not-for-profit status:</p> <ul style="list-style-type: none"> • A request may be made for a copy of an Annual Report; • A search for information in the Internet; or • An audit of the participants attending the meeting <p>While staff may occasionally deviate from procedures, the Library feels that there are currently adequate checks and balances in the system, which will be further strengthened by the centralization project.</p>	
<p>15. The City Librarian should ensure that outstanding balances for room bookings are recorded in the accounting system and reported in the financial statements.</p>	<p>15) Agree. The desire to improve controls around room booking across the Library system resulted in the current project to centralize the room bookings.</p>	<p>The use of CLASS for centralized room bookings, scheduled to be complete around the end of 2006, will allow outstanding balances to be recorded in the accounting system and reported in the financial statements.</p>
<p>16. The City Librarian should develop policies and procedures for:</p> <p>(a) collecting advance payment for room bookings;</p>	<p>16a) Agree. The centralization project and prior payments will improve controls around the collection of outstanding accounts. In addition, improvements to the aging report will allow better monitoring of overdue accounts.</p>	<p>As of January 9, 2006, all branches are using new room booking contracts that require payment by cheque, cash or debit/credit card to confirm bookings; this will significantly reduce non-payment issues. Control over payments for multiple future bookings still present a challenge, and by the end of 2006, reporting options in CLASS will be</p>

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<p>(b) ensuring timely follow-up on outstanding room rentals; and</p> <p>(c) maintaining complete records of room bookings and outstanding room rentals by branches not using the centralized room booking system (CLASS).</p>	<p>b) Agree. The centralization project and prior payments will improve controls around the collection of outstanding accounts.</p> <p>c) Agree.</p>	<p>investigated to produce reports to help manage this.</p> <p>The reporting in CLASS will be assessed and by the end of 2006, improvements will be made to the aging report which will allow better monitoring of overdue accounts.</p> <p>Reminders will be sent to branches to keep records of room bookings so that outstanding accounts can be collected.</p>
<p>17. The City Librarian should maintain and monitor occupancy statistics for room rentals as a tool for planning.</p>	<p>17) Agree. The centralization of room bookings should result in an overall improvement in the management of the inventory of the meeting rooms, and will lead to better planning and utilization, and possibly higher revenues.</p> <p>However, the primary purpose of meeting rooms is for the delivery of library programs and services. When not required for library purposes, the rooms are made available, in order of priority, to:</p> <ul style="list-style-type: none"> • Not-for-profit organizations and community groups • City departments and ABCs • Commercial groups <p>When meeting rooms are not booked, they are frequently used by students as study space or for staff meetings.</p>	<p>Continue with the project to centralize room bookings, currently scheduled to be complete around the end of 2006.</p>
<p>18. The City Librarian should ensure centralized branch use of the room booking system (CLASS) by the end of 2006.</p>	<p>18) Agree. The decision to centralize system-wide bookings was made in 2005 and to date, 45 percent have been centralized. Due to the resources required for the project, plans are to complete centralization around the end of 2006.</p>	<p>Continue with the project to centralize room bookings, current scheduled to be complete around the end of 2006.</p>

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<p>19. The City Librarian should ensure licences are acquired based on a review of expected use and actual use is monitored. Centralized room booking system (CLASS) licenses acquired to date should be reviewed and related maintenance costs should be negotiated with the vendor according to expected use.</p>	<p>19) Agree. With the completion of the centralization project, and the expanded use to manage staff meetings, there will be more users of the CLASS system.</p>	<p>Our analysis has shown that 10 concurrent users is the appropriate level for 2006/7, so no action is required.</p>
<p>20. The City Librarian should improve controls on management of leases and lease rentals by:</p> <p>(a) developing a lease agreement process to track lease details including expiry dates to ensure timely lease renewals. In addition, all terms and conditions should be finalized prior to commencement of the agreement; and</p> <p>(b) obtaining post dated cheques in advance from tenants as a means of collecting lease rental revenue on a timely basis.</p>	<p>20a) Agree. There are currently 31 tenant leases, of which 27 are current and signed, 3 are awaiting signatures, and 1 is in overholding and being negotiated. While a few leases may not be signed in a timely manner, lease periods and rental rates are always negotiated prior to commencement.</p> <p>20b) Agree.</p>	<p>Lease and rent schedules are in place and used to monitor rent payments and expiry dates. The Library will discuss with City Legal options to expedite lease documents.</p> <p>All new leases will require post dated cheques.</p>
<p>21. The City Librarian should ensure lease rental write-offs are supported with formal management approval.</p>	<p>21) Agree.</p>	<p>All write-offs will be formally approved by management and reported to the Board annually for information</p>
<p>22. The City Librarian should renegotiate photocopier rates with the vendor and evaluate other options including the coordination of the Library photocopy contract with the City.</p>	<p>22) Agree.</p>	<p>The Library will approach the vendor and explore options to save costs on the existing contract. The Library will also discuss the possibility of pooling photocopying services with the City.</p>

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23. The City Librarian ensure existing and future contracts are reviewed and evaluated to take advantage of volume pricing by coordinating with the City.	23) Agree. However, it should be recognized that the City's needs for photocopying is different from the Library's, as this is a public service in libraries, and photocopy services are sold.	Before the next photocopy contract is tendered, the Library will discuss the possibility of pooling photocopying with the City.
24. The City Librarian should review the photocopier maintenance request process to ensure service is not covered under the current maintenance agreement prior to payment. Prior period maintenance costs should be reviewed and any duplicate payments should be recovered accordingly.	24) Agree.	All invoices are now being reviewed by the Purchasing department before they are processed. During 2005, approximately \$5,000 of costs was incurred for additional service calls; these will be reviewed.
25. The City Librarian should reduce the current charge card machine ("Mini-Till") maximum value (currently \$999), and ensure charge card machines and library cards are maintained in a secure location where cards cannot be accessed and charged by persons other than library staff.	25) Agree.	In the third quarter of 2006, the vendor will be requested to restrict Mini-Till values to a maximum of \$100 each instance. In June 2006, Instructions will be sent out to branches reminding them of the need to secure library cards and copy cards.
26. The City Librarian should direct branches to reconcile charge card machine ("Mini-Till") reports with daily cash collection reports.	26) Agree	In the third quarter of 2006, a reconciliation process will be introduced, which will reconcile mini-till reports to the cash collections reports.
27. The City Librarian should review current controls in the circulation system and ensure data integrity is maintained and adequate records exist for changes made to system records.	27) Agree. In the current system, it is not possible to control staff access to history data, beyond current level of login and password control.	Access control in the new ILS will have much greater granularity and will make it possible to put more controls in place.

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28. The City Librarian should ensure the price change control process is formally documented and all price changes in the system adhere to a formal written process.	28) Agree. The change control process is currently very transparent and effective, and there has never been a problem in this area.	In June 2006, formal sign-off procedures will be implemented to improve documentation.
29. The City Librarian should take steps to minimize the risk of unauthorized access to patron information transmitted to the collection agency. Steps should be taken to ensure the use of secure methods for transmitting data such as data encryption and secure logins.	29) Agree.	The Library will investigate appropriate data encryption which is compatible with the collection agency, and implement the change, expected in the third quarter of 2006.
30. The City Librarian should ensure the formal development of system control processes for: <ul style="list-style-type: none"> - granting staff access to library systems; - maintaining access controls lists; - ensuring access is provided to appropriate staff and periodically removing users not requiring system access; and - enforcing password change controls on a regular basis. 	30) Agree. Work Order system is currently being adapted to provide tracking of requests and actions. Access control lists are currently maintained and staff no longer requiring system access is removed. The current Dynix system does not enforce password changes.	Access control at the administrative and personal name account name level was reviewed in February 2006; any staff no longer requiring access to Dynix was removed. Options for password change controls on the new ILS will be investigated.
31. The City Librarian should ensure development of implementation plans for planned projects. Projects affecting library branches should be coordinated and communicated to branches and include an agreed upon implementation plan.	31) Agree.	The library uses project planning tools for all major projects. Consideration will be given to a wider application, as appropriate.
32. The City Librarian should ensure the implementation of measures to promote the integrity and accuracy of inventory records, and minimize errors when receiving and processing returned material.	32) Agree. With an annual circulation of over 30 million, this means that there are over 60 million scan transactions. With this much activity, some errors do occur, but there is no evidence of this being widespread.	The new ILS may provide cost effective opportunities to further increase controls and reduce errors.