



OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

MEMORANDUM

To: Members of the Chattanooga Public Library Board
From: Stan Sewell, City Auditor
Date: August 26, 2014
Re: Library Hotline Cases

The City's Hotline received multiple reports of wasteful activity and abuses by several employees of the Chattanooga Public Library (Library). Due to these reports being submitted within a short time of each other and because our initial work indicated weaknesses in the internal control structure at the Library, we initiated a special project. In addition to broader areas of review, we ensured the scope included all concerns reported through the City's Hotline. We interviewed Library personnel, reviewed board minutes and Library policies, examined timesheets (July 2012 through November 2013), outlook calendars, travel expenditures and accrued-leave documentation. Detail records (travel expenditures and leave/time records) were reviewed for a select few employees with a limited scope. Therefore, any discrepancies discussed in this memorandum should not be viewed as a comprehensive detail of erroneous/improper transactions.

We have reviewed the issues contained in this memorandum with the Library Director and offered to meet with the Chair of the Library Board prior to issuance of this memorandum.

Background

In August 2011, City Ordinance 12537 recreated and reestablished an independent free library for the City of Chattanooga. The board members of the recreated library board were nominated by the Mayor and confirmed by the City Council. The newly created library board was to organize by electing officers and adopting bylaws and regulations consistent with City Code. At the September 2011 board meeting, the Library Board elected officers. As of July 2014, the Library Board has not adopted bylaws (a requirement of TCA 10-3-104).

The Chattanooga Public Library is a municipal entity subject to all laws and rules applicable to City government in general. In January 2012, the Library Board hired a new executive director to manage the operations of the Chattanooga Public Library. During the past two years, the Library has implemented some new policies, including *Library Card Policies*, *Patron Ban Procedures*, *Circulation Policy*, *Communication Policy*, and *Workplace Sleeping / Failing to Remain Alert Policy*. The Library lacks documented policies and procedures for many key areas and the majority of operating policies in place remain antiquated, having been established in past decades. Further, these policies do not appear to have been formally implemented by the new organization created in 2011. Although many staff appear to be aware of, and to some extent, complying with procedures of the predecessor organization, the Library lacks official policies and procedures for many fundamental areas.

Vacation, Sick and Personal Leave Policies and Procedures

Per the legacy policy, the Library grants vacation leave to all salaried staff. Hourly employees do not accrue vacation leave. Vacation leave is earned each month that is worked and accrued on the 1st of the following month. The Personnel Officer pro-rates leave earned during an employee's first month on the job based on the number of days worked during the month. Employees are required to obtain supervisory approval and record the vacation leave in advance in the vacation book located in the Personnel Office. Vacation leave may not be taken during the first six months of employment and may not be taken in increments less than one hour. Per the policy, no more than five (5) vacation days may be used during the month of December.

In addition to vacation leave, full-time salaried employees earn one (1) day of sick leave (policy dated May 2000) for each calendar month worked. As stated previously, the initial month of employment is pro-rated based on number of days worked. Employees must notify their supervisor or person in charge when they need to use sick leave. The supervisor or person in charge is required to notify the Personnel Officer. Employees are required to indicate the sick leave time on their time sheets.

The Library grants three (3) personal leave days (policy dated December 1989), which may be taken for any reason. Personal leave days are granted to all full-time employees beginning each year on the first day of the anniversary month of their hire date. Personal leave days must be taken in full-day increments, scheduled in advance with the employee's supervisor, recorded in the vacation book and marked as such on the employee's time sheet. Personal days can be taken anytime during the year except between December 10 and December 31. Personal days may not be carried over into a new anniversary year.

The Library's Personnel Officer processes the payroll and maintains the leave balances for all employees. Payroll checks are processed using the City's Oracle system. However, leave accrual balances are maintained manually by the Personnel Officer using excel spreadsheets. Our review of the vacation policies and leave accrual balances identified the following discrepancies:

- ***Employees took vacation but failed to report leave to the Personnel Officer (neither by timesheet nor otherwise).*** We documented unreported vacation leave by Ms. Hill, Mr. Hill, Ms. Backus, and Ms. Barnett of 48, 120, 68 and 9 hours, respectively. Mr. Hill's adjusted (per our review) vacation leave results in a negative balance of 53.34 hours as of December 1, 2013. We also documented 8 and 4 hours of sick leave not reported by Mr. Hill and Ms. Backus, respectively.
- ***Employees performed paid consulting/speaking engagements while being paid by the Library.*** We documented unreported leave by Mr. Hill and Ms. Backus of 48 and 40 hours, respectively. During our interviews with Mr. Hill and Ms. Backus, they both acknowledged leave should have been taken during the paid engagements.
- ***Leave reported to Personnel Officer was not accounted for in the leave balances.*** We documented leave reported to the Personnel Officer but not recorded in the leave balances for Ms. Hill and Ms. Backus of 40 and 8 hours, respectively. We also noted disorganized record keeping by the Personnel Officer in general: He had to work through stacks of papers to locate requested documents.
- ***Leave policies are not consistently applied to all staff.*** We documented vacation leave taken by Ms. Hill, Mr. Hill and Ms. Backus within the first six months of employment as well as Ms. Hill using more than five (5) days of vacation leave during the month of December. In addition, we noted these employees typically did not record leave in the vacation book (although other employees were required to do so).
- ***Timesheets are not reviewed and approved by Mr. Hill.*** We documented Mr. Hill does not review timesheets of his staff. Timesheets were submitted directly to the Personnel Officer. In addition, some of the timesheets were not submitted in a timely manner (some in excess of 6 months). Ms. Backus acknowledged she submitted timesheets with false information.
- ***Leave accrued after initial hire date was not consistently calculated.*** We reviewed the leave balances of Ms. Hill, Mr. Hill, Ms. Backus and Ms. Barnett; all of whom were recently (since the new organization was created) hired by the Library. As stated previously, the accrual should occur on the 1st of the month following the month worked on a pro-rated basis. However, three of the four employees' leave balances indicate their accrual was overstated and one of the four employees' pro-rated amount was incorrect.

We recommend the leave (and time reporting) policies and procedures be updated and approved by the Library Board. A possibility for consideration could be adoption of the City's personnel policies and procedures with the noted exception that any approval required by the City Council or Mayor be substituted with approval by the Library Board. Regardless, a standard leave request form should be used to document advance approval and support adjustments to leave balances. [The Library Director has reported this practice has been initiated during our work on this project.] Timesheets should be properly reviewed and approved by supervisors prior to processing payroll. Proper reviews and segregation of duties should be in place for the Personnel Officer who appears to have substantial autonomy with regard to the entire payroll/leave process.

We recommend the Library Director work with the City's Human Resource Department to incorporate the Library's leave accrual maintenance into the Oracle payroll system. We further recommend the leave policies be administered consistently. Any exceptions should be properly approved and clearly documented with the Library's Personnel Officer. We have provided the Library Director with a detail of the leave discrepancies. We recommend all leave records be appropriately adjusted.

Travel Policies and Procedures

During our review, we found the Library lacked any substantive travel policies and procedures. There is a legacy policy from 1996. However, it lacks any specific policies or procedures beyond a requirement that staff must file a form to claim travel expenses. Examination of some travel reimbursement forms revealed several issues: Travelers not using CONUS rates when booking hotel rooms, errors in calculating CONUS per diem reimbursements, stated policy not consistently applied to all travelers and no formal approval policy in place.

- ***Travelers did not use standard CONUS rates when booking hotel rooms.*** We reviewed the travel reimbursement/expense reports for Ms. Hill, Mr. Hill and Ms. Backus from October 2012 through November 2013. It appears per-diem rates were sometimes used (although no policy was in place). The comparison of CONUS rates to the hotel rates paid by the Library indicates a \$1,067 savings if CONUS rates had been used when traveling.
- ***Overpayments were made due to errors on travel reimbursement requests.*** We found a double reimbursement claimed by Ms. Hill on a trip to Denmark (she claimed actual hotel expenses and also claimed a per diem amount for hotel expense) resulting in an overpayment to her of \$972. In addition, Ms. Hill received the per diem for meals at 100% of the reimbursement rate on her travel dates to and from Singapore resulting in an overpayment of \$74.50. The general government standard, the City of Chattanooga policy, and the practice based on other travel reimbursement forms reviewed for the Library is 75% on travel days.

Based on our review of the Next 2013 Library Conference, all attendees received a refund of \$51.23 for overpaid registration fees. Ms. Hill received a refund on her personal credit card, yet she failed to include the refund on her travel expense report and was overpaid \$51.23 for registration fees.

We also noted Mr. Hill traveled to Chicago, IL in June 2013 for the ALA 2013 conference. We found he received duplicate reimbursements of \$403.60 for the airfare (one from the Library and one from Friends of the Library).

The overpayments were discussed with Ms. Hill and Mr. Hill on February 14, 2014. As of the date of this memorandum, reimbursements have not been made to the Library (based on a review of collection reports by our office).

- ***Travel reimbursement policy not consistently applied to all travelers.*** Ms. Hill stated the Library does not reimburse travelers for meals. Although overall the policy was followed, we did note meal expenses were occasionally reimbursed and per diems were provided during the Denmark and Singapore conferences. Further, we noted Ms. Hill received per diem for meals during the Next 2013 Library Conference (held in Denmark) but neither Mr. Hill nor Ms. Backus received any meal reimbursements for that trip.

During our review of the Next 2013 Library Conference, we found the conference dates were June 17th & 18th. All three attendees extended their travel days for personal reasons (leaving on the 12th and returning on the 22nd). While reviewing the detail charges, we noted the Library paid 4 nights of hotel expenditures for Mr. Hill and Ms. Backus. However, the Library paid 5 nights of hotel expenditures for Ms. Hill. It appears she received an added benefit of \$232.83 for a personal expenditure.

After discussing the travel issues described above with the Library's Director, she submitted the *City of Chattanooga's Travel Regulations* to the Library Board for adoption as Library policy. The Library Board approved this as policy.

Library Books, Computers and Equipment Surplus

There was an allegation received via the City Hotline that historical books (particularly Civil War books) were being removed from the library shelves and sold for no valid reason. We reviewed board minutes, interviewed the Library Director, and reviewed documented industry standards related to weeding of books. It appears the removal and sale of library books is a routine part of library business. We identified no fraudulent intent, nor did we identify any personal gain related to the disposition of the books. According to the Director, the de-accessing or culling of the library's collection has not been done in sometime. Because the process was not being performed in a consistent and timely manner, it might have appeared to some as improper.

The Director explained that books removed from inventory are donated to Friends of the Chattanooga Library (“Friends”), a domestic non-profit corporation. According to the board meeting minutes, book sales are the primary source of income for Friends. Any proceeds from the sale of the books are collected by the non-profit organization and used to support the library. To promote transparency, we would recommend the Library Board approve the donation of books to the non-profit organization. The Board should also consider TCA 6-54-111 and City Code Sec. 2-526 to determine if any additional requirements must be in place.

There was also an allegation of wasteful or improper disposition of old computer equipment. We conducted interviews and determined the Library consulted the City’s Purchasing Agent with regard to the old equipment. Per the Purchasing Agent, he visited the 4th Floor of the Library in May 2013 and advised how the Library should proceed in removing property. The Purchasing Agent stated the items were old and needed to be discarded. It appears the Library attempted to properly dispose of outdated property. In addition, we noted in the board minutes, discussion of cleaning the library (by removing old equipment) and donating shelving to the City of White House, Tennessee. We identified no fraudulent intent, nor did we identify any personal gain related to the disposition of the old equipment.

We did note the Library does not appear to be in compliance with state mandated sensitive minor equipment inventory requirements¹. The lack of a documented formal policy and procedures for safeguarding and disposing of equipment/inventory is a weakness in the Library’s internal control structure. Similar to our previously mentioned recommendations, we recommend the Library Board adopt the fiscal policies and procedures of the City. In lieu of this action, we recommend the Library Board adopt a comprehensive policy ensuring all fixed assets and sensitive minor equipment is properly safeguarded and accounted for by requiring management (along with other detail procedures) maintain a perpetual inventory system, conduct annual physical inventories, maintain detail records of acquisition/disposition, and require any items identified for surplus be disposed of by an individual or entity separate from the individual maintaining inventory records.

Legal Compliance and Internal Control Weaknesses

We have expressed concerns about internal controls and provided some citations above related to legal compliance in specific areas being addressed. During this project, we developed a general concern about legal compliance and weaknesses in the internal control structure. As mentioned in the Background section, the Chattanooga Public Library is a municipal entity. The State of Tennessee imposes substantial operating requirements on municipal entities, with the intent being to ensure a strong internal control system and accountability to the citizens. The

¹ See also City Code Sec. 2-5 and the *Internal Control and Compliance Manual for Tennessee Municipalities*

Chattanooga Public Library does not appear to have made any substantial efforts to comply with these mandates or to ensure that comprehensive operational policies and procedures are in place.

The *Internal Control and Compliance Manual for Tennessee Municipalities* is a lengthy set of requirements for municipal entities. Policies and procedures must be in place to ensure compliance with the manual. The Library's Director was unaware of this manual and the Library is lacking a comprehensive set of policies and procedures to comply. In addition to failed legal compliance, the lack of such basic documented policies and procedures is a major weakness to the internal control structure of the organization. We have provided a copy of the manual to the Library Director. To ensure timely compliance, we recommend the Library Board adopt all City of Chattanooga fiscal and personnel policies with the noted exception that any action requiring the approval of the Mayor or City Council be substituted with the Library Board.

The Library is subject to the Tennessee Open Meetings Act. Currently, the only action taken by the Library to give public notice of board meetings is to publish a single notice once per year specifying the regularly scheduled board meetings. It is the opinion of the Tennessee Office of Open Records that notice is necessary for each meeting. We recommend the Library maintain a schedule of board meetings on the main page of the Library's website. In addition, we recommend meetings be posted on the main door of the Library one week prior to the meeting date.

In addition to requirements imposed on municipal entities by state law in general, TCA 10-3-106 requires all disbursements of Library funds to be authorized by the signature of two officers of the board. We noted this authorization has not been taking place.

Library staff appear to be City Employees: They receive paychecks and IRS Forms W-2 from the City, they participate in the City Pension plan and Health plan. However, they are not being held subject to other City personnel codes or policies that apply to all "City employees." We recommend the Library Board adopt all City of Chattanooga personnel policies and procedures with the exception of substituting the Library Board for any approvals required by the Mayor or City Council.

As mentioned above, the Library donates old books to the Friends of the Library. The Friends of the Library financially supports activities of the Library, often in the form of reimbursing travel expenses for Library staff. Clear policies and procedures should be in place to ensure transparency and accountability for all transactions between the two entities. These policies should include but not be limited to provisions that: Ensure employees do not receive duplicate reimbursements from the Library and Friends of the Library, and that Library staff do not serve any official capacity for Friends of the Library (conflicts of interest).

In the absence of adopting all fiscal and personnel policies of the City of Chattanooga, the Library should also consider the potential relevance of state laws such as (but not limited to):

- TCA 6-56-111 Deposit of funds (be aware of the 3 day rule),
- TCA 6-56-112 Lawful municipal purpose required (ensure all travel is for a Chattanooga Public Library purpose),
- TCA 6-56-301 et al Municipal Purchasing Law (much of this is covered due to the Library's use of the City's Purchasing Department but a formal policy is still needed).

Local Government Instances of Fraud Reporting Act

In compliance with TCA 8-4-501 et al, we have reported potential fraudulent activity by Margaret Backus, Systems Administrator and Nathaniel Hill, Assistant Library Director to the Tennessee Comptroller's Office. Both individuals were paid by the Chattanooga Public Library while working for other entities as a consultant or speaker (without reporting leave to the Library). Ms. Backus acknowledged submitting false time records, deleted relevant information after it was requested by the auditor and made false statements to the auditors. Mr. Hill had supervisory responsibility for Ms. Backus and failed to report substantial amounts of leave himself. In addition, Mr. Hill received duplicate reimbursements for travel (one from the Library and one from Friends of the Library).

The issues discussed in this memorandum are not the result of an audit performed in accordance with generally accepted government auditing standards. Had we performed such an audit, additional issues might have been reported. The purpose of this memorandum is to provide the Chattanooga Library Board with information it may deem useful in fulfilling its governance responsibilities.

cc: Mayor Andy Berke
Chattanooga City Council
Travis McDonough, Chief of Staff
Brent Goldberg, Chief Operating Officer
David Queen, Audit Committee Chairman
Corinne Hill, Library Director