



Office of the City Controller

HOUSTON PUBLIC LIBRARY AND HOUSTON PUBLIC LIBRARY FOUNDATION

Follow-Up Audit



Chris Brown
City Controller

Report # 2024-03

Courtney Smith
City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

October 12, 2023

The Honorable Sylvester Turner, Mayor,

**SUBJECT: REPORT #2024-03
HOUSTON PUBLIC LIBRARY (HPL) AND HOUSTON PUBLIC LIBRARY FOUNDATION
(HPLF) – FOLLOW-UP AUDIT REPORT**

Mayor Turner:

We have completed the follow-up procedures on remediation efforts performed by HPLF management relating to Audit Report #2012-11, "*Houston Public Library Foundation*" and Audit Report #2020-01, "*Houston Public Library Cash Handling Processes – Performance Audit*." As part of providing independent and objective assurance services related to efficient and effective performance, compliance and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported in previous audits.¹ Seven findings remain open: one for Audit Report #2012-11 and six for Audit Report #2020-01.

Our follow-up audit process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

The efforts of management and the procedures performed towards the remediation of the issues from previous audits are assessed under the following criteria:

- Not Implemented:** No formal policy and/or no documented effort to address the audit finding.
- Incomplete/Ongoing:** Ongoing development of a process and/or effort toward a policy to address the audit finding.
- Substantially Implemented:** Significant effort directed toward remediation of the audit finding.
- Fully implemented:** Successful implementation of measures to address the audit finding.

¹ IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that "... Captures the relevant observations, agreed corrective action and current status."

GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

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Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.² Our conclusions are as follows:

Report #2012-11: Based on our procedures, we conclude that this finding has a status of “Fully Implemented” and is considered closed.

Report #2020-01: Based on our procedures, we conclude that five findings have a status of “Fully Implemented” and are considered closed while one finding has a status of “Incomplete/Ongoing” and will remain open.

Details of remediation activities are contained in Exhibits 1 and 2 of the accompanying report.

We would like to thank the management and staff of the Houston Public Library and Houston Public Library Foundation for their cooperation during the follow-up audit process.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members

Dr. Rhea Lawson, Director, Houston Public Library
Hope Obika, Assistant Director, Houston Public Library
Marvalette Hunter, Chief of Staff, Mayor's Office
Shannan Nobles, Chief Deputy City Controller
Courtney Smith, City Auditor, Office of the City Controller

² See Exhibit 1 for the Detailed Remediation Assessment

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Background

As part of providing independent and objective assurance services related to efficient and effective performance, compliance and safeguarding of assets, we perform follow-up audit procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

We have completed our follow-up procedures related to remediation efforts performed by management of the Houston Public Library Foundation (HPLF) and the Houston Public Library (HPL), respectively, as they relate to findings contained in Audit Report #2012-11, "*Houston Public Library Foundation – Performance Audit*" and Audit Report #2020-01, "*Houston Public Library – Cash Handling Processes Performance Audit.*"

A total of seven findings were issued under Audit Report #2012-11 and six were issued under Audit Report #2020-01. The result of prior follow-up audits is shown in the graphics below.

AUDIT REPORT 2012-11



AUDIT REPORT 2020-01



¹ IIA Standard 2500 Implementation Guidance - stresses the importance of having a process that "... captures the relevant observations, agreed corrective action, and current status."

GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08.

The audit procedures described in this report are based on remediation efforts for the seven remaining findings.

Audit Scope and Objectives

The objectives of our follow-up audit were to determine:

1. The status of each open item; and
2. The adequacy of the department's remediation process to resolve open findings.

Procedures Performed

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed and assessed management's status updates to open findings;
- Determined the findings for which management's status updates indicated remediation;
- Determined and requested documentation necessary to support the finding's statuses reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

Follow-up Approach

Our follow-up audit process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Our follow-up audit process includes sending requests for status updates on management's progress toward the remediation of open findings. Management provides status updates through an online portal. This information is then assessed by the follow-up auditor who considers (1) responsiveness to the original issue and (2) remediation of the issue.

AUDIT/TESTING VERIFICATION:

After sending update requests, a management status update indicating that a finding has been remediated is then tested/verified by the follow-up auditor prior to being closed.

The information received through management status updates is used as a basis for follow-up testing. If necessary, additional supporting information is gathered by the follow-up auditor to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed as one of the following four categories:

- Not Implemented - No formal policy and/or no documented effort to address the audit finding.
- Incomplete/Ongoing - Ongoing development of a process or efforts towards a policy to address the audit finding.
- Substantially Implemented - Significant efforts directed towards the implementation of the audit finding.
- Fully Implemented - Successful implementation of the finding remediation.

Conclusions

Based on the procedures performed, we believe we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.

CONCLUSION 1 - (AUDIT OBJECTIVE 1)

Our conclusions for the audit objective in connection with the status for each open item are as follows:

- Audit Report #2012-11: The open finding from this audit is considered closed.
- Audit Report #2020-01: Of the six findings issued during this performance audit, five are considered closed and one will remain open.

Please see Exhibits 1 and 2 for the Detailed Remediation Assessment.

CONCLUSION 2 - (AUDIT OBJECTIVE 2)

Based on audit procedures performed, our conclusions on

management efforts to remediate findings are as follows.

Audit Report 2012-11:

- Procedures performed revealed that management implemented processes to ensure endowment activity is accurately recorded and expenditures are made according to donor stipulations. These actions resulted in the remediation of the outstanding finding and as a result, the finding is considered closed and ***“Fully Implemented”***.

Audit Report 2020-01:

- Procedures performed revealed that management has made changes to policies and practices regarding their petty cash fund and established account reconciliation processes. As a result of these remediation efforts, five findings are considered ***“Fully Implemented”*** and closed.
- One finding will remain open as our procedures revealed that management remediation efforts to install new cameras in City libraries to ensure the safety of personnel as well as prevent, detect, and deter fraud and losses is considered ***“Incomplete/Ongoing.”***

Please see Exhibits 1 and 2 for the Detailed Remediation Assessment.

Audit Standards

We conducted follow-up audit procedures in accordance with Generally Accepted Government Auditing Standards issued by the Government Accountability Office and the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Acknowledgement

We would like to thank the Houston Public Library Foundation and the Houston Public Library for their remediation efforts and their cooperation during the follow-up audit process.

City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up HPLF
Houston Public Library Foundation (HPLF) Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2023 Audit Follow-Up Procedures

Audit Report Number	Original Audit	Original Audit Finding	Management's Status Update	Conclusion	
				Procedures Performed	Conclusion
2012-11	Review and Recording of Program Expenditure.	<p>1. HPLF is not performing detailed reviews of expenditures for compliance with applicable donor stipulations. In addition we noted that neither HPLF nor GHCF is reconciling the cash outflows from the HPL Agency Account to detailed expenditures as reported by HPL.</p> <p>2. GHCF has been recording the funds transferred to the HPL Agency Account from the HPLF Operating Account as a single expenditure called "Grants to HPL" in their general ledger without proper adjustment based on actual expenses. A balancing entry is made to a contra-asset account ("Funds held for others") based on the cash balance in the Agency account. This represents unspent funded program dollars from the HPLF Operating Account and donations received directly by HPL</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>The finding for review and recording program expenditure was corrected and fully implemented. HPLF has an endowment budget speedsheet which includes the current year endowment as well as the previous year's balance. The total endowment for the year has a monthly spending plan for the endowment. Receipt of all expenditures to indicate the breakdown of the expenditure to ensure it is in accordance to the donors stipulation is available. HPLF maintains an excel sheet narrating the purpose of donor stipulations.</p>	<p>Obtained monthly bank statement(s), reconciliaton details and summary. Donors stipulated plan, fund allocation spreadsheet, endowment spending plan and receipt of endowment expenditure. Reviewed the monthly bank statement with reconciliation details to ensure accuracy in the bank reconciliation. Studied the donors stipulated plan, fund allocation spreadsheet and the endowment spending plan. Tested some expenditure receipts to ensure they were spent in accordance to donors stipulations and also the book value balances agrees with the receipt received.</p>	<p>Fully Implemented</p>

City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up HPL
Houston Public Library (HPL) Follow-Up Procedures

Exhibit 2 - Detailed Remediation Assessment, FY2023 Audit Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Procedures Performed	Conclusion
2020-01	Purchases exceeding fund withdrawal limit.	<p>During the audit, we noted instances of split purchases and single transactions greater than \$100 as follows:</p> <ul style="list-style-type: none"> On December 4, 2017 two (2) items of purchase from Walmart totaling \$115.74 were purchased at \$80.00 and \$35.74 respectively On December 5, 2017 HPL purchased from Walmart an item of Camp Stream Dry Run in the amount of \$114.35. On December 26, 2017, two (2) items of Camp Stream Dry Runs totaling \$192.96 were purchased at \$99.40 and \$93.56, respectively. <p>Section 6.3.1 of AP 5-3 prohibits single transactions greater than \$100 and split purchases designed to avoid exceeding the fund withdrawal limit. We obtained HPL management response to our findings. Management represented to us that the purchases were made during the course of their operations.</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>HPL maintains and ensures that purchases do not exceed the \$100 fund limit per transaction. As part of internal controls, all petty cash transactions are reviewed by management personnel prior to disbursement in line with the provisions of AP 5-3. All transactions are reviewed and approved accordingly. This was corrected after the initial findings and AP 5-3 has been fully implemented.</p>	<ol style="list-style-type: none"> Obtained the schedule of petty cash purchases for fiscal year 2023. Selected samples and obtain the supporting documentation Review the details of the transactions to ensure they do not amount to split transactions. Items that give indications of split transactions include but not limited to: <ol style="list-style-type: none"> Same day Same vendor Similar or items that are often bought together. Obtained and reviewed the reimbursement schedule to ascertain there are no entries above \$100. Ensured expenditure in excess of \$100, if any, is properly reviewed and approved and appropriate waiver is obtained in accordance with the department's expenditure approval process. 	Fully Implemented
2020-01	Petty cash fund used for prohibited purchases	<p>We noted several instances that we consider both individually and aggregate, to be violations of the provisions of Section 6.2.1.10 which prohibits the use of fund for food and beverages of any kind; and Section 6.2.1.11 which prohibits the use of pretty cash fund for "Entertainment of any kind". The transactions are as detailed below:</p> <ul style="list-style-type: none"> On December 4, 2017 HPL purchased from Walmart food items in the amount of \$50 On May 1, 2018 HPL purchased from Walmart Alka Seltzer Plus items for Camp Stream Dry Run in the amount of \$99.40 and 19.55 respectively On June 22, 2018 HPL made 3 separate purchases of pizza at \$100, \$60 and \$40 respectively. <p>We inquired from management whether approval for these transactions were obtained from The Mayor's Office as required under Section 6.2.1.10 and noted none. We sought management representation to our findings. Management represented to us that the purchases were made during the course of their operations.</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>The use of petty cash for food and entertainment citing AP 5-3, section 6.2.1.10 was corrected and fully implemented. HPL obtains waiver from the Mayor's Office in line with the provisions of AP 5-3, for purchases requiring food and entertainment. Additionally, petty cash receipts are reviewed by management to make ensure transactions are free of purchases of food and entertainment in cases where Mayor's waivers are not obtained.</p>	<ol style="list-style-type: none"> Review of relevant sections of AP 5-3 (i.e. 6.1.1 Allowable Purchases and 6.2 Prohibited Purchases) for the purpose of gaining an understanding of the Prohibited purchases. Determine whether a list of prohibited items is maintained by HPL and made available to staff. Review reimbursement schedule for prohibited items. Select a sample of time periods and obtain the supporting petty cash report(s)/schedule(s) Review the report(s)/schedule(s) for purchases of prohibited items like food, entertainment related items etc. and viewed the approver letter for prohibited items. Select a sample of petty cash purchases and obtain support documentation. Perform substantive tests of transactions to ascertain they are not for prohibited items. 	Fully Implemented

City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up HPL
Houston Public Library (HPL) Follow-Up Procedures

2020-01	Departmental policies not in compliance with AP 4-8 AND AP 5-3	<p>Audit work performed revealed the following exceptions, which we consider both individually and in aggregate to constitute significant deficiencies in internal control and compliance:</p> <p>(a) There is no evidence that the HPL departmental policy was submitted to the Finance Department for review and approval as required under Section 6.3 of AP 4-8. Representations provided to us by the Finance Department indicate that the policy was not submitted to them for review and approval.</p> <p>(b) There were inconsistencies in the balance maintained for Petty Cash Fund 100190. The authorized balance was \$1,900 yet the balance of \$1,888.00 was maintained. The detail reflected in the GL indicated there were two instances of reported shortages in the amount of \$40 and \$22, respectively. HPL did not reconcile these discrepancies as required by Section 7.9.4 of AP 4-8.</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>The finding for noncompliance citing AP 4-8 and AP 5-3 in departmental policies was corrected after the initial findings. HPL no longer has a separate policy but follows City of Houston policies. There is no need to submit cash policy to Finance Department for review and approval.</p>	<p>Inquired regarding the departmental cash policy. The purpose was to obtain and review the policy to ensure it was submitted to the Finance Department for approval as required under the provisions of AP 4-8. We noted that HPL no longer maintains a departmental cash policy and follows the cash policy of the City as contained in AP 4-8.</p>	Fully Implemented
2020-01	Several HPL security cameras are inoperative or non-existent	<p>Security cameras designed to provide evidence of secured cash handling operations were either inoperative, ineffective or in certain instances, both. In some instances, the security cameras were not installed at some locations.</p> <p>Furthermore, audit procedures performed regarding preventive maintenance operations performed on the installed cameras by GSD revealed that maintenance services were last performed on some cameras in April 2014. In some instances, there is no record that preventative maintenance services were performed for other HPL locations. We also noted that some of the cameras were not properly placed to fully capture the collection and exchange of cash. For example, the two cameras covering the two cash till locations at the Central Library were not fully covering all the viewable angles of the cash transactions.</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>GSD is responsible for security cameras for all departments. HPL informed GSD regarding the need for operative security cameras in the Financial Services suite. GSD installed new and additional security cameras, inside the Financial Services suite, after the findings. GSD security performed a walk through and verified that all cameras are operative.</p> <p>In addition to Financial Services Suite, the current status of camera installation at HPL locations are as follows:</p> <ol style="list-style-type: none"> (1) Alief: New cameras installed (2) Central: New Cameras Installed and some were upgraded (3) Collier: RFPs to install cameras yet to be issued (4) Park Place: proposal awarded, however work to commence in 2024 (5) Stella Link: on-going work to install new cameras. Work to be completed in 2024 	<p>The proposal for security cameras of newly installed and upgrades was obtained from GSD for review. There was an on-site/physical observation of five sampled library locations. Three locations had newly installed and upgraded cameras, one had a proposal for work to start in 2024 and one was yet to be proposed. GSD neither had a camera maintenance policy nor a register of performed maintenance.</p>	Uncompleted/Ongoing

City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up HPL
Houston Public Library (HPL) Follow-Up Procedures

2020-01	Inability to reconcile and account for revenue properly.	<p>Audit procedures performed revealed exceptions regarding the General Fund maintained by HPL management and the amounts recorded in the SAP by the Controller's Department.</p> <p>HPL did not demonstrate it maintained an adequate financial revenue reconciliation process to determine if the amounts recorded in SAP matched the amounts HPL received as revenue. Furthermore, we found no evidence to support a process for ensuring cash receipts from operations through Smart Money were accurate and whether reconciliation was performed for any shortfall in revenue arising from operations. The absence of a formal documentation of the reconciliation process is in the departmental policy is in violation of the provisions of Section 7.2.1.4 of AP 4-8 which require a description of the reconciliation process, including the frequency of reconciliation.</p> <p>We inquired from HPL staff and management regarding the exceptions noted above which indicated that General Fund recorded in the SAP was understated by \$1,480,899.16. Management represented to us even though they account for monies received through Smart Money as General Fund they do not reconcile the balances with the amount recorded in the City's General Fund ledger because the reconciliation is performed by Controller's Office personnel. We did not receive any documentary support from HPL management regarding the differences.</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>The finding of inability to reconcile and account for revenue has been fully implemented. Transactions are mostly cashless and revenue receipts are recorded electronically. A revenue ledger is generated which is reconciled with the city general ledger maintained by the City's Controller's office.</p>	<p>We received a general ledger of revenue and revenue receipt details. HPL is currently operating using cashless transactions. These transactions are done electronically. The revenue general ledger balanced with revenue receipt. The revenue records were verified with that in the Controller's Office.</p>	Fully Implemented
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City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up HPL
Houston Public Library (HPL) Follow-Up Procedures

2020-01	Petty cash balance exceeds immediate needs.	<p>(A): Petty Cash - Our review of transactions revealed that the petty cash balance exceeded the immediate cash needs of HPL by \$1,794.62. We sought management explanations for this finding. Management represented to us that the excess balance was maintained as a buffer because of the delay and bureaucracy encountered in the process for fund increment. The increment process includes both replenishing the fund and documentation.</p> <p>(B): Change Fund - Audit procedures revealed that HPL maintains a parking change fund in the amount of \$6,200. According to representations offered to our inquiries, this fund was intended as change fund for the parking garage. It was planned to be installed in the machines placed in the garage operated by HPL to offer change to the public for parking. The option was discontinued for various reasons: 1) it was observed that the machines were dispensing change funds inappropriately and in certain instances human operators still had to intervene to dispense change to the public and 2) the public generally paid via credit/debit card thereby reducing the need for change. As a result, HPL has decided to return the change fund to Administration and Regulatory Affairs (ARA) Department for further action. However, the funds have been with HPL for over three months and as at the time of this report, it is yet to be forwarded to ARA.</p>	<p>Updated Management Response as of September 20, 2023:</p> <p>The finding that petty cash balance exceeds immediate needs was corrected and reduced. HPL mainly engages in cashless transactions, as a result there is no need to maintain any cash balance. The parking change fund of \$6,200 was returned to Controller's Office.</p>	<p>Obtained evidence document of the return of the \$6,200 parking fund. HPL transactions are currently cashless so there is no need for that fund. Petty cash disbursements are reimbursed quarterly and that reduces excess cash maintenance.</p>	Fully Implemented
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Audit Team

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