




## THE CITY OF SAN DIEGO

DATE: December 2, 2015

TO: Misty Jones, Library Director

FROM: Eduardo Luna, City Auditor 

SUBJECT: Internal Control Issues: San Diego Public Library

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During the course of our performance audit of the San Diego Public Library<sup>1</sup> (SDPL), we found that SDPL has not undertaken a process to develop, document and implement internal controls necessary to mitigate risks to efficient and effective library operations and the safeguarding of library assets. Additionally, SDPL policies and procedures were nonexistent, outdated, or did not address risks we identified across a variety of library functions and operations. The importance of internal controls and issues specific to SDPL are discussed in more detail below.

In compliance with Government Auditing Standards Section 6.78, *Early Communication of Deficiencies*, we are issuing this memorandum to management and those charged with governance prior to completing our performance audit due to the inherent risks these conditions pose to the City. Additionally, pursuant to Government Auditing Standards Section 7.41, *Reporting Confidential and Sensitive Information*, we are issuing a separate confidential, limited use memorandum to management regarding safety and security-related internal control issues, and will omit that information from the public report.

We made one recommendation to address the issues set forth in this memorandum. Management agreed to implement the recommendation and outlined several planned steps to improve internal controls related to the issues we identified. Management's response is included after page 6 of this memorandum. We would like to thank SDPL staff for their assistance and cooperation during this portion of the audit.

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<sup>1</sup> The San Diego Public Library system consists of the Central Library, 35 branch libraries, and the adult literacy program (READ/San Diego).

## **Internal Controls Are Necessary to Mitigate Risk**

Internal control is a process affected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Government Auditing Standards, the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, and the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework* set forth both general and specific guidance on establishing an effective, comprehensive internal control environment. Key steps in developing an internal control system are to identify and analyze areas of enterprise risk; design and implement controls to mitigate those risks; and continuously monitor and revise control activities in response to changing circumstances. Importantly, control activities should be documented and promulgated through clearly-defined policies and procedures.

Various types of control activities should be employed to manage areas of risk to an organization's governance, operations, and information systems. For example, the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* underscores the importance of evaluating adequate and effective controls regarding:

- Compliance with laws, regulations, policies, procedures, and contracts;
- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs; and
- Safeguarding of assets.

## **City Administrative Regulation Provides Guidance on Internal Control Activities**

Within the City of San Diego (City), Administrative Regulation 1.00 states that departments involved in complicated, lengthy, or detailed operations are required to work with the Internal Controls Section of the Office of the City Comptroller to develop and issue Process Narrative and Work Instructions to detail the performance of these operations.

## **Industry-Specific Guidance on Controls for Library Management**

Guidance from organizations such as the American Library Association and related groups provide general standards and specific guidance on control activities on a variety of issues related to library management. Of particular note, industry guidance and leading industry practices emphasize the importance of safeguarding library assets by establishing policies and mitigating security risks.

## **SDPL Needs a Comprehensive Internal Control Framework**

As part of our audit of SDPL, we conducted a preliminary evaluation of internal controls across several areas of SDPL operations, with a particular focus on controls relating to effective and efficient operations and the safeguarding of assets. We found that SDPL has yet to undertake a system-wide process to evaluate areas of risk to library operations, and establish controls to mitigate those risks. Specific areas that we evaluated include: physical security, environmental controls, inventory, loss

protection, purchasing of materials and supplies, contract administration, revenue collection, and timekeeping. In general, we found that policies and procedures across most areas that we reviewed were non-existent, outdated, or did not address specific risks that we identified. Current and continuously updated policies and procedures are critical to establishing an effective internal control environment.

The Library Director indicated that the process for developing internal controls and corresponding procedures may likely have been impeded by the previous SDPL management and organizational structure. Specifically, prior to FY 2016, SDPL was managed by location rather than function. The director recently restructured management by establishing a Deputy Director to oversee public services and one Deputy Director to oversee support services. In our view, the restructuring should aid SDPL in developing controls, policies and procedures across the library system. Additionally, the Library Director indicated staff and management were heavily focused on the multi-year effort to open the Central Library in 2013.

We acknowledge the significant effort required to immediately undertake a system-wide process to assess risk, establish internal controls, and develop or update policies and procedures to implement those controls. Accordingly, we are communicating this information and making one recommendation to management prior to completing our audit, so that SDPL can initiate the process of developing controls to address the areas of greatest risk in the near-term, and undertake planning to establish a comprehensive internal control framework going forward.

**Recommendation 1: The Library Director, in consultation with the Internal Controls Section of the Office of the City Comptroller, should undertake efforts to develop, prioritize, and implement an internal control system based on a comprehensive assessment of risks to the San Diego Public Library (SDPL) system. Policies and procedures should be established or updated as needed to implement internal control activities. Specifically, SDPL should assess system-wide risk, establish applicable internal controls, and develop or update policies, as needed, in the following areas:**

- **Physical security;**
- **Environmental and facility controls;**
- **Inventory;**
- **Loss protection;**
- **Purchasing of materials and supplies;**
- **Contract administration;**
- **Revenue collection;**
- **Timekeeping; and**
- **Any other areas of key operational risk identified by SDPL management. (Priority 2)**

We conducted this portion of the performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, 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 the audit objectives. Please see Appendix B for a summary of our objectives, scope, and methodology.

cc: Honorable Mayor Kevin Faulconer  
Honorable City Council Members  
Audit Committee Members  
Scott Chadwick, Chief Operating Officer, City of San Diego  
Stacey LoMedico, Assistant Chief Operating Officer, City of San Diego  
David Graham, Deputy Chief Operating Officer, Neighborhood Services, City of San Diego  
Rolando Charvel, City Comptroller, City of San Diego  
Andrea Tevlin, Independent Budget Analyst, City of San Diego  
Ken So, Deputy City Attorney, City of San Diego

# Appendix A: Audit Recommendation Priorities

## DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class <sup>2</sup>	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

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<sup>2</sup>The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher priority.

## Appendix B: Objectives, Scope, and Methodology

In accordance with the City Auditor's Fiscal Year 2016 Audit Work Plan, we are currently conducting a performance audit of the San Diego Public Library (SDPL). The overall objective of this audit is to evaluate the efficiency and effectiveness of SDPL management and operations. This memorandum reports on key risks associated with the SDPL processes and procedures for library collections and general operations. The remainder of the audit is currently ongoing.

In conducting this portion of the review, we focused our scope on 10 areas that should have internal controls established to mitigate known risks. To determine whether SDPL established controls to address key risks for the SDPL, we utilized the following methodologies:

- Interviewed SDPL management and staff regarding library operations and processes;
- Reviewed available SDPL and City policies and guidance pertaining to library operations;
- Conducted on-site observations of SDPL operations and process flows;
- Validated established controls;
- Conducted inspections of Central Library facilities; and
- Analyzed industry guidance regarding library special collections.




THE CITY OF SAN DIEGO

MEMORANDUM

DATE: December 1, 2015

TO: Eduardo Luna, City Auditor

FROM: Misty Jones, Library Director  
via David Graham, Deputy Chief Operating Officer, Neighborhood Services 

SUBJECT: Management Response to Library Department Internal Control Issues: San Diego Public Libraries

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The San Diego Public Library (SDPL) department appreciates the work provided by the Office of the City Auditor on the performance audit of the San Diego Public Library (SDPL). The following represents the SDPL's response to the recommendation associated with internal controls. This response is provided in consultation with the Office of the City Comptroller.

**Recommendation 1: The Library Director, in consultation with the Internal Controls Section of the Office of the City Comptroller, should undertake efforts to develop, prioritize, and implement an internal control system based on a comprehensive assessment of risks to the San Diego Public Libraries (SDPL) system. Policies and procedures should be established or updated as needed to implement internal control activities. Specifically, SDPL should assess system-wide risk, establish applicable internal controls, and develop or update policies, as needed, in the following areas:**

- Physical security;
- Environmental and facility controls;
- Inventory;
- Loss protection;
- Purchasing of materials and supplies;
- Contract administration;
- Revenue collection;
- Timekeeping; and
- Any other areas of key operational risk identified by SDPL management. (Priority 2)

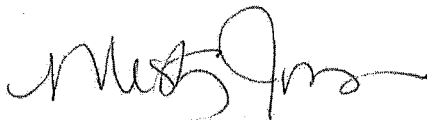
**Management Response: Agree**

On November 18, 2015 the Library Director and Office of the City Comptroller staff met to begin the coordination to address the recommendation. Based upon the issuance of the final performance audit and recommendations, the Library Director, in consultation with the Office of the City Comptroller and Risk Management Department, will develop a scope for a risk assessment of SDPL operations. Based upon the assessment and in conjunction with the Office of the City Comptroller, SDPL will develop a plan to prioritize and implement additional internal controls in areas identified by the risk assessment beyond those that currently exist within the City's municipal codes, ordinance, and Administrative Regulations (ARs).



Last month the Library Department staff began the comprehensive review of the SDPL's reviewing all Department Instructions (DIs) for consistency with updated city policies and procedures. In addition, the SDPL's Code of Conduct, and other policies and procedures such as staff computer use, reservation and usage of meeting rooms, and the Department's emergency management and response policies were all updated.

Anticipated Completion: July 1, 2016



Misty Jones  
Library Director

cc: Scott Chadwick, Chief Operating Officer, City of San Diego  
Stacey LoMedico, Assistant Chief Operating Officer, City of San Diego  
David Graham, Deputy Chief Operating Officer, Neighborhood Services Branch  
Rolando Charvel, City Comptroller, City of San Diego  
Julio Canizal, Risk Management Director