

**REGIONAL LIBRARY SYSTEM**

**FOR THE YEARS ENDED  
JUNE 30, 1995, AND JUNE 30, 1994**

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January 27, 1997

The Honorable Don Sundquist, Governor  
and  
The Honorable Riley C. Darnell, Secretary of State  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Regional Library System for the years ended June 30, 1995, and June 30, 1994.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. Management of the system has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/tp  
96/100

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Compliance Audit  
**Regional Library System**  
For the Years Ended June 30, 1995, and June 30, 1994

## AUDIT OBJECTIVES

The objectives of the audit were to consider the Regional Library System's internal control structure; to test compliance with certain laws, regulations, contracts, or grants; and to recommend appropriate actions to correct any deficiencies.

## COMPLIANCE FINDINGS

### **Compliance With Equipment Procedures Needs to Be Improved\***

Equipment items were not always tagged, serial numbers were not always accurate or included on the inventory listing, keys to the vehicles and local libraries were not always safeguarded, equipment items were not always added to the inventory listing, and purchase prices were not always correctly included on the inventory listing.

### **Regional Library Directors Need to Observe Regular Office Hours\***

Eight of the 12 regional libraries' directors did not always observe regular office hours.

### **Compensatory Time Earned by Employees Is Not Adequately Approved or Monitored**

The directors at seven of the 12 regional libraries do not document their approval of or adequately monitor compensatory time earned and taken by the employees of the libraries.

### **Compliance With Expenditure Procedures Needs Improvement\***

Several weaknesses relating to expenditures were noted at the regional libraries including late payments to vendors, goods ordered and received when funds were not available, lack of approvals on purchase orders and/or invoices, and undocumented bids.

\* This finding is repeated from the prior audit.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
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AUDIT REPORT  
REGIONAL LIBRARY SYSTEM  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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REGIONAL LIBRARY SYSTEM  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

This is a report on the compliance audit of the Regional Library System. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the Regional Library System’s internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants;
2. to test compliance with certain laws, regulations, contracts, or grants; and
3. to recommend appropriate actions to correct any deficiencies.

**SCOPE OF THE AUDIT**

The audit is limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards.

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## BACKGROUND AND ORGANIZATION

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### LEGISLATIVE HISTORY

Chapter 240 of the Public Acts of 1937 authorized regional library services. The first regional library was formed in 1939 when the Tennessee Valley Authority (TVA) contracted with the Department of Education and the Knoxville Library Board to provide regional library services. On July 1, 1943, the Department of Education assumed TVA's regional library responsibilities. In 1951, the regional libraries were placed under the direction of the State Library and Archives Commission. Chapter 88 of the Public Acts of 1955 authorized the regional library boards to act as the governing bodies of the regional libraries and gave the boards power to contract with the State Library and Archives Commission. In 1982, this power was extended to include contracts with the Division of State Library and Archives within the Department of State.

The regional libraries purchase and process library books and other materials for local public libraries, assist local libraries in developing programs and services, and train local librarians and trustees. Bookmobile services are provided to rural areas, day care centers, Head Start programs, and nursing homes.

### ORGANIZATION

The Regional Library System consists of 12 multicounty libraries and four metropolitan single-county libraries. Each regional library is governed by a board of directors. The multicounty regional library boards have two representatives from each county in the region. The metropolitan single-county regional library boards have at least seven members representing the county and participating municipalities. Listed below are the names of the regional libraries and the years they were established.

<u>SINGLE-COUNTY</u>	<u>YEAR ESTABLISHED</u>
Chattanooga-Hamilton County	1961
Knoxville-Knox County	1961
Memphis-Shelby County	1961
Nashville-Davidson County	1961

<u>MULTICOUNTY</u>	<u>YEAR ESTABLISHED</u>
Blue Grass Regional Library	1946
Caney Fork Regional Library	1957
Clinch-Powell Regional Library	1946
Forked Deer Regional Library	1966

Fort Loudoun Regional Library	1939
Highland Rim Regional Library	1946
Nolichucky Regional Library	1941
Reelfoot Regional Library	1942
Shiloh Regional Library	1956
Upper Cumberland Regional Library	1946
Warioto Regional Library	1947
Watauga Regional Library	1942

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Regional Library System filed its report with the Department of Audit on October 6, 1995. A follow-up of all prior audit findings was conducted as part of the current audit.

### **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Regional Library System has corrected the previous audit findings concerning bank reconciliation preparation and performance evaluations of employees.

### **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning equipment controls, expenditure controls, and management's observations of office hours. These findings have not been completely resolved and are partially repeated in this report.

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## RESULTS OF THE AUDIT

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### **AUDIT CONCLUSIONS**

#### Internal Control Structure

We considered the internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no significant deficiencies.

#### Compliance with Laws and Regulations

With respect to the items tested, the Regional Library System complied with the provisions of certain laws, regulations, contracts, or grants except for certain instances of noncompliance included in the findings and recommendations. The compliance report follows the findings and recommendations.

## **Report on the Internal Control Structure**

April 26, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied procedures to test the Regional Library System's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated April 26, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

We considered the system's internal control structure in order to determine our procedures for the purpose of testing the system's compliance with certain laws, regulations, contracts, or grants and not to provide assurance on the internal control structure.

The management of each regional library is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable W. R. Snodgrass  
April 26, 1996  
Page Two

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the system's ability to comply with laws, regulations, contracts, or grants.

We noted certain matters involving the internal control structure and its operation that we have reported to the system's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/tp

## FINDINGS AND RECOMMENDATIONS

### REGIONAL LIBRARY DIRECTORS NEED TO OBSERVE REGULAR OFFICE HOURS

#### 1. FINDING:

The directors at the Caney Fork, Clinch-Powell, Forked Deer, Fort Loudoun, Highland Rim, Nolichucky, Reelfoot, and Upper Cumberland Regional Libraries do not always observe regular office hours. Although the problem was noted at eight locations, the problem appears to be more extensive at the Clinch-Powell and Nolichucky Regional Libraries. This problem was noted at the Nolichucky Regional Library in the prior audit. The Department of State concurred with the finding and stated, “[We] will continue to enforce the standards for compensatory time as outlined in Regional Library Circular B50.4 as well as all other applicable state personnel guidelines.”

The directors attend various business meetings after normal business hours and feel that the time spent in these meetings should be considered part of their normal 37.5 hour work week. To offset the time spent in these meetings, the directors take time off during normal work hours. Since the directors are not available to answer the employees’ questions or to serve clients, the employees may not be able to perform their jobs effectively, and the library may not achieve its goals. Also, in effect, the directors are accruing and using compensatory time in violation of leave policies contained in the *Handbook for Regional Library Directors*.

The *Handbook for Regional Library Directors*, Section XXIII, Part D, “Time and Attendance,” states, “Each regional center shall be open for the transaction of public business from . . . (8:00 a.m.) until . . . (4:30 p.m.) of each [business] day. . . .” The handbook also states in Regional Library Circular No. B50.4 that the “director is not eligible to earn compensatory time under the executive grade exclusion of state law and is not covered by the wage and hour provisions of the Fair Labor Standards Act.”

#### RECOMMENDATION:

The directors should observe regular library business hours to ensure that they are available to employees and clients of the regional library. Also, the directors should comply with the compensatory time policy as stated in the *Handbook for Regional Library Directors*.

MANAGEMENT'S COMMENT:

We concur.

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APPROVAL OF COMPENSATORY TIME EARNED BY REGIONAL LIBRARY  
EMPLOYEES IS NOT ADEQUATELY DOCUMENTED, AND THE TIME EARNED  
AND USED IS NOT ADEQUATELY MONITORED

2. FINDING:

The directors at the Caney Fork, Clinch-Powell, Forked Deer, Fort Loudoun, Highland Rim, Reelfoot, and Upper Cumberland Regional Libraries do not document their approval of or adequately monitor compensatory time earned and taken by the employees of the libraries. The *Handbook for Regional Library Directors*, Regional Library Circular No. B50.4, states that “all overtime must be approved by the director in advance. Employees should not be allowed to work overtime at their own discretion.” In addition, the *Rules of Tennessee Department of Personnel*, Chapter 1120-6-.06, “Compensatory Time,” states, “The use of compensatory time is subject to the approval of the Appointing Authority or a designated manager in the same manner as annual leave.”

Advance approval by directors of employees earning compensatory time is not documented nor is compensatory time earned and taken documented in the leave and attendance records. This results in an inability to determine if approval was actually given or if the amount of compensatory time actually earned and taken was properly applied to an employee’s work schedule.

Failure to comply with the *Handbook for Regional Library Directors* regarding compensatory time may result in employees’ earning and taking inappropriate compensatory leave and the inaccurate recording of time and attendance.

RECOMMENDATION:

Compensatory time earned and taken should be documented and approved in advance. The daily attendance record should accurately reflect the actual daily hours worked and all leave taken.

MANAGEMENT'S COMMENT:

We concur. The department will continue to require that prior written approval be obtained for all compensatory time earned by eligible employees. In addition, the department will continue to require that compensatory time earned and taken be accurately reflected on the eligible employee's time sheet.

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COMPLIANCE WITH EXPENDITURE PROCEDURES STILL NEEDS  
IMPROVEMENT

3. FINDING:

As noted in the prior audit, several weaknesses were again noted relating to compliance with expenditure procedures at the regional libraries. The specific weaknesses noted at each regional library are described below.

**Caney Fork Regional Library**

- Purchase orders were approved by the administrative services assistant instead of by the director.
- The two expenditures tested that should have been bid (100%) were not.
- Goods were ordered and received when funds were not available in the budget to cover the expenditure. Because of this, 11 of 40 expenditures tested (27.6%) were not paid promptly.

**Clinch-Powell Regional Library**

- Seven of 40 purchase orders tested (17.5%) were not approved.
- The quantity and identity of books leased by local libraries from third parties are not confirmed with the local libraries before payment of the invoice by the regional library. Thus, the regional library does not know if all items were received by the local libraries.

### **Forked Deer Regional Library**

- Purchase orders were approved by the administrative services assistant instead of by the director.

### **Fort Loudoun Regional Library**

- The seven items tested which should have been bid (100%) were not.

### **Nolichucky Regional Library**

- Twenty of 40 expenditures tested (50%) were not approved.

### **Upper Cumberland Regional Library**

- Four of 40 expenditures tested (10%) were not approved.

### **Watauga Regional Library**

- Thirty-seven of 40 expenditures tested (92.5%) were not approved.

The *Handbook for Regional Library Directors* contains procedures for regional library personnel to follow when purchasing goods and disbursing funds. However, the procedures are out-of-date. In addition, the handbook requires the director to approve invoices at the same time he/she signs the checks for payment. Proper internal controls require supporting documentation for expenditures to be approved in advance. This is considered a weakness in the handbook.

If purchases of goods are not bid or invoices are not properly approved and promptly paid, library funds may be misused.

### **RECOMMENDATION:**

The directors of each of the regional libraries should ensure that all employees comply with the policies and procedures pertaining to expenditures. In addition, the *Handbook for Regional Library Directors* should be updated to reflect current procedures and proper internal control.

MANAGEMENT'S COMMENT:

We concur. The Department of State will continue to enforce state and federal guidelines pertinent to expenditures.

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COMPLIANCE WITH EQUIPMENT PROCEDURES NEEDS IMPROVEMENT

4. FINDING:

As noted in the prior audit, several weaknesses in controls over equipment were noted at the regional libraries. Equipment items were not always tagged, serial numbers were not always accurate or included on the inventory listing, keys to the vehicles and local libraries were not always safeguarded, equipment items were not always added to the inventory listing, and purchase prices were not always correctly included on the inventory listing. Management concurred with the prior audit finding and stated, "The Department of State will continue to enforce applicable state guidelines as outlined for equipment control." However, the department did not ensure that equipment guidelines were followed. The weaknesses noted at each regional library are described below.

**Blue Grass Regional Library**

- Keys to the vehicles were left in the ignition when the vehicles were parked in the garage. This was done in compliance with the library's Disaster Recovery Plan.
- Duplicate keys to the local libraries and vehicles were not safeguarded. The keys were located on top of a filing cabinet by the front door.
- Since all employees have a key to the building, access to the library was not adequately controlled.
- Items were added to the inventory listing with the wrong purchase price.
- Not all equipment was tagged or added to the inventory listing.
- Seven of 45 items tested (15.6%) were charged to the wrong object code.
- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.

### **Caney Fork Regional Library**

- Keys to the vehicles and local libraries were not safeguarded. The keys were located on a filing cabinet near the front door.
- Since all employees have a key to the building, access to the library was not adequately controlled.
- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.

### **Clinch-Powell Regional Library**

- The keys to the vehicles and the local libraries were not safeguarded. The keys were located on a key hook near the back door.
- Since all employees have a key to the building, access to the library was not adequately controlled.

### **Forked Deer Regional Library**

- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.
- Since all employees have a key to the building, access to the library was not adequately controlled.

### **Fort Loudoun Regional Library**

- Keys to the vehicles and local libraries were not safeguarded. The keys were located in a tray near the front door.
- Since all employees have a key to the building, access to the library was not adequately controlled.
- Items that were surplus, not required to be tagged, or transferred to another region were inaccurately included on the inventory listing.
- Not all equipment items tested were added to the inventory listing.
- Inventory items were documented on index cards instead of the available computer system. The list had not been updated to reflect changes in inventory.

### **Highland Rim Regional Library**

- Since all employees have a key to the building, access to the library was not adequately controlled.
- Keys to the vehicles and local libraries were not safeguarded. They were kept in an unlocked storage cabinet.
- Not all equipment items tested were added to the inventory listing or tagged.
- Items were added to the inventory listing with the wrong purchase price.
- Equipment items were charged to the wrong object code.

### **Nolichucky Regional Library**

- Two equipment listings assigned the same tag number to different items.
- Items were added to the inventory listing without including their locations.
- Not all equipment items tested were tagged.
- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.

### **Reelfoot Regional Library**

- The keys to the vehicles and local libraries were not safeguarded. The keys were kept on a key hook behind a door.
- Since all employees have a key to the building, access to the library was not adequately controlled.
- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.
- Equipment items were charged to the wrong object code.

### **Shiloh Regional Library**

- Not all equipment items tested were added to the inventory listing or tagged.

- Since all employees have a key to the building, access to the library was not adequately controlled.
- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.

### **Upper Cumberland Regional Library**

- The keys to the vehicles and the local libraries were not safeguarded. They were maintained in an unlocked closet.
- Not all equipment items tested were added to the inventory listing or tagged.
- Since all employees have a key to the building, access to the library was not adequately controlled.
- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.

### **Warioto Regional Library**

- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.
- Equipment items were charged to the wrong object code.
- Equipment items that were surplus or were not required to be on the inventory listing were on the inventory listing.

### **Watauga Regional Library**

- Serial numbers of equipment items were not always listed, correct, or complete on the inventory listing.
- Items were added to the inventory listing with the wrong price.
- Not all equipment items tested were added to the inventory listing or tagged.
- No tag number was assigned for 21 of 35 items tested that were added to the inventory listing (60%).
- Two of 17 equipment items tested (11.8%) could not be located.

- The tag number for one of the file cabinets tested in the tech services area was listed incorrectly.
- At least five different lists were maintained for the equipment inventory. None of the lists contained enough information to serve as a comprehensive equipment list for the library.

The *Handbook for Regional Library Directors*, Section XXIII, Part C, “Identification of Equipment,” describes equipment as nonexpendable personal property costing \$500 or more and having a life expectancy of three years or more. An inventory of equipment must be maintained. The handbook further states, “Each piece of equipment is assigned a number to be attached to the equipment . . . the number is also entered on the inventory [listing].”

Failure to tag equipment or to safeguard keys to the local libraries and library vehicles could result in theft or loss. Also, accountability of equipment is difficult if items are omitted or recorded incorrectly on the equipment listing.

#### RECOMMENDATION:

All equipment should be promptly tagged when received. Inventory listings should be corrected, and lost, stolen, or surplus equipment should be removed from the listing. Purchased equipment should be added to the listings with correct and complete information. Keys to vehicles and local libraries should be stored in a secure area. Management should review the need for all employees to have a key to the building.

The Blue Grass Regional Library management should review and consider revising their Disaster Recovery Plan relative to leaving keys in vehicles that are parked in the garage.

#### MANAGEMENT’S COMMENT:

We concur. The Department of State will continue to enforce applicable state guidelines as outlined for equipment control.

## **Compliance Report**

April 26, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied procedures to test the Regional Library System's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994. We performed the procedures in accordance with generally accepted government auditing standards.

Compliance with laws, regulations, contracts, or grants applicable to the Regional Library System is the responsibility of the system's management. Our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that the Regional Library System complied with the provisions referred to in the preceding paragraph, except for certain instances of noncompliance included in the Findings and Recommendations section of this report. We also noted other less significant instances of noncompliance that we have reported to the system's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/tp

