

# WEST VIRGINIA LEGISLATURE

## *Performance Evaluation and Research Division*

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John Sylvia  
Director



January 11, 2017

The Honorable Craig Blair  
Building 1, Room W-217  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305

The Honorable Gary G. Howell  
Building 1, Room E-213  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305

Dear Chairmen:

This letter report is in response to your letter dated April 5, 2016, requesting an audit of local library system audit requirements, including an examination of the potential financial risk of allowing for biennial audits. The findings below are divided by subheadings addressing your request.

### **Local Public Library Audit Requirements**

As part of the requirements for receiving grants-in-aid from the West Virginia Library Commission, public libraries are required to undergo an annual financial audit. Specifically, West Virginia Code of State Rules (CSR) §173-1-3.8.h requires a public library to ensure "*all accounting records are available in a form which can be audited or reviewed by the Library Commission or authorized representatives of the State of West Virginia or United States Government. The annual audit or review is filed with the Library Commission within 30 days of the receipt of the audit.*" In addition, per CSR §173-1-2.2, "*audit means an annual examination of the financial records of the public library completed in full accordance with generally accepted accounting procedures for governmental agencies and performed by an accountant appointed by the state auditor.*"

## **Financial Risk of Biennial Audits**

As noted above, public libraries are currently required to submit an annual audit to the West Virginia Library Commission. In order to assess the possible risk of changing to a biennial audit schedule, the Performance Evaluation and Research Division (PERD) selected a random sample of 44 annual audits from 81 publicly available audits for fiscal year 2015. The audits were reviewed to identify the nature of any findings. The sample size calculation is based on a 95 percent confidence level, with a standard error of plus or minus 5 percent.

Our review found that 27 percent of public library audits had no findings, while 73 percent had at least one finding, and 23 percent had two findings. The most common finding was lack of segregation of duties, which was present in 66 percent of the audits. Per the audits, “*because of the lack of segregation of duties, internal control elements do not reduce to a relatively low level the risk that irregularities in amounts would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.*” In general, the responses of the public libraries to the finding were that it is not economically feasible to further segregate duties.

In addition, we noted the following findings in the FY 2015 audits:

- a lack of qualifications and knowledge on the part of finance staff to adequately prepare financial statements;
- misclassification of revenue and failure to record revenue in appropriate time period;
- improper recording of post-employment benefits;
- loss of earnings on endowments in possible violation of trust agreements;
- failure to record all transactions;
- failure to maintain a detailed list of capital assets with historical cost amounts;
- condition of paid invoice files; and,
- a board vacancy.

Using the same public libraries selected for the FY 2015 sample, the PERD reviewed FY 2014 audits as well. Our review found a similar stratification: 30 percent of public library audits yielded no findings, 70 percent yielded at least one finding, while 11 percent had two or more findings. Again, lack of segregation of duties was the most common finding, occurring in 61 percent of audits sampled.

In addition, we noted the following findings in the fiscal year 2014 audits:

- a lack of qualifications and knowledge on the part of finance staff to adequately prepare financial statements;
- a lack of retention of supporting documentation for debit card purchases;
- a lack of retention for non-debit card purchases; and,
- condition of paid invoice files.

Overall, audits of public libraries show both a high and continued prevalence of material weaknesses in internal controls. It is likely that expanding the timeframe between audits would substantially increase the risk of material misstatements or non-compliance with laws, regulations, and grant agreements.

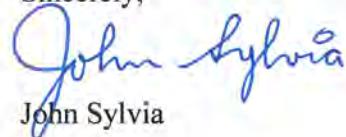
## Federal Guidance for Audits

The federal Office of Management and Budget provides guidance to entities regarding grants and agreements using the Code of Federal Regulations (CFR). Within the CFR are uniform audit requirements for federal awards. In general, according to §2 CFR part 200.520, entities will fall under one of two classifications: low-risk auditee or regular auditee. The designation of a regular auditee requires additional audit procedures (e.g. testing double the number of funds disbursed). The first test to determine classification is the frequency of audits. In general, entities subject to biennial audits are treated as though they are regular auditees, and, consequently, are subject to additional procedures by virtue of the fact they are audited less frequently. However, if entities audited annually have certain deficiencies, such as findings of material weaknesses, they still come under the regular auditee designation and are also subject to additional procedures. Although public libraries are audited annually and would initially qualify as low-risk, PERD's review of audits found approximately two-thirds of public libraries exhibit factors that would require them to be audited as regular auditees under federal criteria, and thus be subject to additional procedures. Therefore, a shift to a biennial audit would be recommended only for those public libraries whose audits contain no deficiencies.

Additional federal requirements governing audits require the submission of audits to the federal audit clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. Analysis of the FY 2015 audits of public libraries found that, on average, audits were released 243 days (approximately 8 months) after the close of the fiscal year, while 38 percent were released after nine months. The earliest an audit was released was 72 days after the close of the fiscal year, while the latest was 406 days after the close of the fiscal year. While the average release time (time from the end of the audit period to public release date) falls within the federal guidance, the timing is near the nine-month limit and a significant portion exceeds the federal nine-month limit. Given the length of time for release of the audit, shifting to a biennial audit schedule could substantially delay the identification of issues with regard to internal controls or finances.

I hope this report answers your questions concerning the potential financial risk of allowing for biennial audits of public libraries. If you have any additional questions, please do not hesitate to contact me.

Sincerely,



John Sylvia

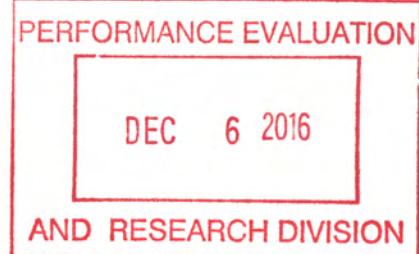


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Karen Goff, Executive Secretary

December 5, 2016

Noah Browning, Senior Research Analyst  
West Virginia Legislature  
Performance Evaluation and Research Division  
1900 Kanawha Blvd. E.  
Charleston, WV 25305



RE: Public Library Auditing Requirements

Dear Mr. Browning;

Thank you for the opportunity to review the report on public library audit requirements. I find the report thorough and complete. It clearly explains the possible detrimental effects of changing the current requirement for an annual audit to a biennial audit schedule.

I agree that the biennial schedule would provide no benefit to the libraries and could possibly delay the discovery of financial reporting and other related issues.

I commend you on the degree of professionalism demonstrated by this report.

Respectfully,

A handwritten signature in blue ink that reads "Karen Goff".

Karen Goff, Executive Secretary