

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Public Library System

Summary

The Office of the Auditor and the certified public accounting firm of KPMG Peat Marwick LLP conducted a financial audit of the public library system for the fiscal year July 1, 1996 to June 30, 1997. The audit examined the financial records and systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of the firm, the financial statements present fairly the library system's financial position and its results of operation for the fiscal year ended June 30, 1997. These statements are in conformity with generally accepted accounting principles.

In their report on compliance and on internal control over financial reporting, the firm noted no matters involving the internal control over financial reporting that they considered to be material weaknesses. KPMG also noted that the results of their tests disclosed that the library system did not comply with applicable laws and regulations related to the expenditure and transfer of funds from the library system's special funds.

Specifically, KPMG and our office found that the state librarian did not comply with Sections 312-3.6 and 312-22, HRS, which require that revenues in the Libraries Special Fund and the Library Fee for Enhanced Services Special Fund be distributed to the individual libraries. Instead, \$2 million was used to pay Baker & Taylor and \$500,000 was transferred into the state's general fund during fiscal years 1995-96 and 1996-97. The transfer did not comply with Section 37-53, HRS, because (1) it was not formally approved by the governor or the director of finance, and (2) the amount transferred was not in excess of fiscal year requirements. No moneys were distributed to the libraries from either special fund.

We also found that the state librarian misrepresented that he would disburse \$1.6 million from these special funds to the individual libraries during FY1996-97. Only one-third of the moneys he claimed he would distribute to the libraries was actually available in the special funds. The fund balances were further reduced when an additional \$590,000 was used to pay Baker & Taylor.

The library system's liberal borrowing rules and inadequate controls over cash receipts increase the risk for abuse, theft, and loss. For example, 516 items were borrowed on one library patron's card within three weeks and not returned. Over \$13,000 in fines remains uncollected for these items.

Contract payments to Baker & Taylor were not subject to contract performance standards, contrary to the library's own guidelines.

Recommendations and Response

We recommended the Legislature require the state librarian to detail the revenues and expenditures for the special funds by individual libraries. We also recommended the governor require the state librarian to document that any transfer from these funds to the general fund is in excess of fiscal year requirements as specified in Section 37-53, HRS.

We recommended the library limit the number of materials a patron may borrow, require patrons to submit a picture identification when borrowing library materials, and barcode all circulating library material.

We made several recommendations to improve fee and fine collections and management of cash. We also recommended all future contracts provide that payments will correlate with performance.

The state librarian agreed with most of the findings and recommendations. The exceptions concerned the distribution and transfers from the special funds. The Board of Education did not submit a response.

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