

# OFFICE OF THE CITY CONTROLLER



## HOUSTON PUBLIC LIBRARY FOUNDATION (HPLF) AUDIT FOLLOW-UP PROCESS REPORT

**Chris B. Brown, City Controller**

**Courtney E. Smith, City Auditor**



**OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS**

**CHRIS B. BROWN**

June 27, 2019

The Honorable Sylvester Turner, Mayor

**SUBJECT: REPORT #2019-12  
HOUSTON PUBLIC LIBRARY FOUNDATION (HPLF) – ONGOING AUDIT FOLLOW-UP  
PROCESS**

Mayor Turner:

The Office of the City Controller's Audit Division has completed follow-up procedures on remediation efforts performed by HPLF management, as they relate to *Audit Report #2012-11*, titled, "*Houston Public Library Foundation – Performance Audit*." As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

The Audit Division (Division) Audit Follow-Up Process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

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.<sup>2</sup>

- A total of seven (7) findings were issued under Audit Reports 2012-11 that were the responsibility of HPLF. Compliance has been achieved with the remediation and closing

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<sup>1</sup> IIA Standard 2500 - requires a process that "... auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c (4)

GAGAS Appendix I Supplemental Guidance A1.08 states "*Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for.... addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations...*"

<sup>2</sup> See Exhibit 1 for the Detailed Remediation Assessment, 2019 Audit Follow-Up Procedures



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CHRIS B. BROWN

of six (6) findings. One finding will remain open pending implementation of procedures by management to adequately remediate.

- In reviewing the department's remediation processes associated with six (6) findings, we concluded the overall assessment to be **Adequate**.

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

Respectfully submitted,

Chris B. Brown  
City Controller

xc: City Council Members

Rhea B. Lawson, Ph.D., Director, HPL

Sally Swanson, Executive Director, HPLF

Hope Waobikeze, Deputy Assistant Director, HPL

Marvalette Hunter, Chief of Staff, Mayor's Office

Shannan Nobles, Chief Deputy City Controller

Courtney Smith, City Auditor, Office of the City Controller



Office of the City Controller  
Audit Division

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## *EXECUTIVE SUMMARY*

### *BACKGROUND*

The Office of the City Controller's Audit Division (The Division) has completed its FY2019 follow-up procedures related to remediation efforts performed by Houston Public Library Foundation (HPLF) management, as they related to Audit Report #2012-11, titled, "Houston Public Library Foundation – Performance Audit". As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

The Division's Audit Follow-Up Process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates
- Audit Testing/Verification

### **MANAGEMENT STATUS UPDATES:**

Prior to the issuance of audit reports, findings are ranked according to three levels of risk to the City as a whole (High, Medium, and Low). Our continuous follow-up process includes sending requests for status updates related to management's progress toward the remediation of open findings. Management provides status updates through an online portal that alerts the Division when received. This information is then assessed by the follow-up auditor, who considers (1) responsiveness to the original issue and (2) remediation of the issue. A status update which indicates that a finding has been remediated is tested/verified by the follow-up auditor prior to being closed.

### **FIELDWORK/TESTING VERIFICATION:**

The information received through management status updates is used as a basis for follow-up testing. Additional supporting information is gathered by the follow-up auditor if it is needed 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 (Adequate or Inadequate). A rating of **Adequate** indicates the department has processes in place to sufficiently monitor and address issues identified. The department demonstrates this by having either remediated (if the finding is Closed) or is exhibiting progress in the remediation efforts

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<sup>1</sup> IIA Standard 2500 - requires a process that "... auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations..."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c (4)

GAGAS Appendix I Supplemental Guidance A1.08 states "Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for... addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations..."

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(if the status is Ongoing). An **Inadequate** rating is assessed when the status of the findings is not as reported by management and/or the issues have not been addressed as stated in a status update.

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### ***AUDIT SCOPE AND OBJECTIVES***

The objectives of our Follow-Up Procedures were to determine:

1. The status for each open item and
2. The adequacy of the department's remediation process in place to resolve its universe of open findings.

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### ***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 the documentation necessary to support the findings status reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

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### ***AUDIT METHODOLOGY***

We conducted Follow-Up Procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) 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.

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### ***CONCLUSIONS***

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:

#### **Conclusion 1 – (Audit Objective 1)**

There were a total of seven (7) findings issued under Audit Report 2012-11 that were the responsibility of HPLF. Six (6) findings were remediated and closed based on actions taken by management to address each. One finding will remain open pending implementation of procedures by management to adequately remediate. See Exhibit 1 for the detailed remediation assessment.



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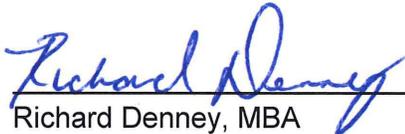
**Conclusion 2 – (Audit Objective 2)**

In reviewing the department’s remediation efforts, we concluded that the processes implemented by them to remediate six (6) open findings were **Adequate**.

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***ACKNOWLEDGEMENT AND SIGNATURES***

We would like to thank the Houston Public Library Foundation and the Houston Public Library for their proactive approach to risk management and their cooperation during our follow-up process.

  
Richard Denney, MBA  
Lead Auditor

  
Theresa Watson, CIA  
Manager

  
Courtney E. Smith, CPA, CIA, CFE  
City Auditor

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Office of the City Controller - Audit Division  
Project: FY 2019 Follow-Up  
Houston Public Library Foundation - FY 2019 Follow-Up Procedures

**Exhibit 1 - Detailed Remediation Assessment, FY 2019 Audit Follow-Up Procedures**

| Audit Report Number | Finding Title                                    | Finding   | Management's Status Update   | Conclusion   |                     |
|---------------------|--|---|--|--|---------------------|
|                     |  |   |  | Ongoing/ Closed  | Remediation Process |
| 2012-11             | Accounting for and Evaluation of Endowment Funds | As of June 30, 2011, \$763,265 was spent from the Permanent Fund that had not been recorded in the FBA. Therefore the total fund balance of \$19,383,738 was not properly supported by the existence of cash/investment assets (\$18,620,473). To balance the financial statement, a current liability of \$763,265 is recognized at June 30, 2011. The difference has been increasing over the last three fiscal years representing a cumulative effect that has also created a General Fund deficit of \$377,581. If the proper adjustments are not made timely, HPLF is at an increasing risk of spending donor restricted money inappropriately and not being compliant with TUPMIFA. | <p>Updated Response: 09/12/2018</p> <p>The Houston Public Library Foundation (HPLF) received the independent research identifying the specific restriction (donor designation) for the Houston Public Library's endowed funds. By FY 2014, the original HPLF staff and most of the board members had left the organization. Mayor Annise Parker appointed a new chairperson, who hired a contract bookkeeper. The Bookkeeper built the tracking mechanisms for the endowments that are still currently in use and reports the monthly aggregate totals to the Board of Directors at every meeting. At the beginning of FY2019, the bookkeeper conducted a detailed analysis of HPLF's Financial Position that accounts for all monies under HPLF's responsibility and will begin monthly tracking of HPLF's net position across all accounts, including endowed funds.</p> | <b>Closed</b> - Audit obtained and reviewed the following documents from HPLF: Narrative, detailing the revised processes for tracking and monitoring endowment funds, Financial Asset Report, Annual Endowment Allocations, and the Vanguard Account/Endowment funds account statements. Tests were performed to determine that HPLF's management is maintaining an active role in managing fund balances for purposes of tracking endowments. Management's remediation procedures were adequate to close this finding. | <b>Adequate</b>     |

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| Audit Report Number | Finding Title                                | Finding   | Management's Status Update   | Conclusion   |                     |
|---------------------|--|---|--|--|---------------------|
|                     |  |   |  | Ongoing/ Closed  | Remediation Process |
| 2012-11             | Review and Recording of Program Expenditures | <p>A. 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>B. 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 Response: 09/12/2018</p> <p>HPLF and HPL meet monthly to review program expenditures. All older dollars were identified and spent according to donor restrictions/research. New grant dollars are transferred to the Agency Account after sending a transmittal email that declares the donor designation. If more information is needed, the open communication between HPL and HPLF initiates another email requesting clarification. We use email exclusively so that we have a paper trail and electronic timeline for tracking review.</p> | Ongoing - Audit obtained and reviewed the FY2018 Private Funds Grants spreadsheet, FY2018 Private Funds Budget Allocations report, June 30, 2018 general ledger (GL) excerpt, and email communications between the HPLF and HPL. Based on the review and test performed, it was determined that HPLF was unable to provide documentation of detailed reviews of HPL expenditures. Management's remediation procedures were inadequate to close this finding. | Inadequate          |

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|---------------------|--|---|---|---|---------------------|
|                     |  |   |   | Ongoing/ Closed   | Remediation Process |
| 2012-11             | Misstated Classification of Functional Expenditures/Expenses | HPLF does not have policies and procedures that guide the classification of Foundation expenditures and identify proper substantiation.<br>The documentation provided by HPLF did not adequately support nor delineate the process by which functional classifications were made as required by FAS No. 117. The financial statements were, therefore, based on an unsupported worksheet (Functional Allocation Schedule) that inaccurately classified and under-reported a significant percentage (approximately 43% for FY2011) of Management and General Expenses (Administrative) by presenting them as Programmatic Expenses. This leads the financial statement reader to incorrectly perceive both a higher funding to HPL and lower HPLF operating costs. | Updated Response: 09/12/2018<br><br>The cost code system is supported through expense-related documents such as employee expense reimbursement forms. All of the combined HPLF expenses are coded on a monthly basis, and the Executive Director receives the report prior to the month closing. The costs are reviewed and reclassified if they were coded incorrectly. The bookkeeper receives the updates and then completes the monthly financial statement that includes an expense categorization by function.<br><br>Part IX Statement of Functional Expenses in the IRS 990 provides an accurate representation of the segmentation of expenses including Total Expenses, then a breakdown of Program Service expenses, Management and General expenses, Fundraising expenses. The pass-through HPL program support/expense is coded as Program Services and is reconciled at the end of the fiscal year. | <b>Closed</b> - Audit obtained and reviewed the QuickBooks Account Codes sheet, Payroll Allocations Sheet, Profit and Loss Budget Overview sheet, and the HPLF's Statement of Functional expenses, as reported to the IRS. Based on a review of a sample of transactions, Audit found that HPLF is properly classifying expenditures. Management's remediation procedures were adequate to close this finding.          | <b>Adequate</b>     |
| 2012-11             | Undocumented HPLF Board Approval                             | On January 14, 2011, the President of HPLF and one other employee were paid a bonus. The HPLF could not provide documentation (i.e. Board minutes) indicating Board resolution of criteria, metrics or approval of the action. In addition, HPLF has not adopted a formal employee incentive compensation policy for its employees.   | Updated Response: 09/12/2018<br><br>HPLF Board of Directors' meetings are open and public meetings; therefore, the minutes associated with the discussions and actions of the meetings are maintained as part of the official public record of the organization. All meeting minutes are filed on premises in the corresponding month's folder and within the appropriate year.<br><br>A quorum is declared at the beginning of each board meeting with attendance of the meeting reported in the meeting minutes. If a quorum is not present, it is declared that any voting items are suspended until a quorum is established, either later during that meeting or at the next scheduled meeting. Over the past two years, a quorum was not established at only two meetings.   | <b>Closed</b> - Audit obtained and reviewed Copies of HPLF's Board Resolutions and Board Meeting Minutes. Based on a review of a sample of management changes and expenditures that require Board approval, Audit determined that HPLF's Board Resolutions are appropriately documented and applicable transactions are approved, as required. Management's remediation procedures were adequate to close this finding. | <b>Adequate</b>     |

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|---------------------|---|--|---|--|---------------------|
|                     |   |  |   | Ongoing/ Closed  | Remediation Process |
| 2012-11             | Donations Not Deposited or Recorded                                   | Internal controls over recording and depositing donations are not always effective and do not provide reasonable assurance that all donations received are recorded and deposited.                                 | <p>Updated Response: 09/12/2018</p> <p>HPLF has a detailed process for donation management, and now fully staffed, has separation of duties. The Administrative Assistant opens mail (or receives HPL hand delivered checks), date stamps items, and copies checks. Check goes to Bookkeeper for deposit. A copy of each check goes to the Database Administrator for input into RENXT.</p> <p>A monthly reconciliation occurs between RENXT and QuickBooks. An itemized report is produced from each system that includes an accounting for quantity of items received/deposited and the total amount deposited. If discrepancies occur, a detailed line-item review occurs between the Database Manager and Bookkeeper.</p>   | <b>Closed</b> - Audit obtained and reviewed HPLF's Narrative documenting revised procedures on depositing and recording donations, Accounting & Internal Controls Manual, Monthly reconciliation, reports from RENXT, and QuickBooks. Based on a review of a sample of donations, Audit determined that applicable donations received are being recorded and deposited. Management's remediation procedures were adequate to close this finding. | <b>Adequate</b>     |
| 2012-11             | Deposits Not Recorded as Contributions in the Donor Tracking Database | Not all deposits were recorded as contributions in the donor database and in two cases, contributions shown could not be associated with a deposit. (Revenue associated with the donations was properly recorded). | <p>Updated Response: 09/12/2018</p> <p>A monthly reconciliation occurs between RENXT and QuickBooks as well as a separate process between HPLF and HPL. An itemized report is produced from each system that includes an accounting for quantity of items received/deposited and the total amount deposited. If discrepancies occur, a detailed line-item review occurs between the Database Manager and Bookkeeper. All donations are entered into the donor database, RENXT.</p> <p>The primary source for discrepancies are received checks that are not donations. The reimbursement checks for staff travel is the most common exception, and most of these exceptions occur in the checks that are received via HPL. Those dollars are logged into the Quick Books system but not in the donor database, RENXT. The funds are transferred into the Agency Account without any additional documentation other than what the refund identifies. HPL should then offset the expense with the associated reimbursement.</p> | <b>Closed</b> - Audit obtained and reviewed HPLF's Narrative regarding revised procedures related to recording applicable deposits into the donor tracking database, examples of deposits that may not be recorded as contributions, such as travel reimbursements, monthly reconciliation reports from RENXT, and QuickBooks. Based on the test performed, Management's remediation procedures were adequate to close this finding.             | <b>Adequate</b>     |

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| Audit Report Number | Finding Title                         | Finding  | Management's Status Update   | Conclusion   |                     |
|---------------------|---------------------------------------|--|--|--|---------------------|
|                     |                                       |  |  | Ongoing/ Closed  | Remediation Process |
| 2012-11             | Lack of Scholarship Fund Distribution | No scholarships have been presented to a student since the donation was received in 2008. There is no evidence of communication between HPLF and the Church's pastor or their Board since 2008 in clarifying or modifying the criteria for scholarship awards. | <p>Updated Response: 09/12/2018</p> <p>FY2014 - HPLF discovers the original agreement and begins distributions of the scholarships with the first of ten \$5,000 checks over ten years on 5/14/12. HPLF Chairperson communicates with Reverend Samuel Smith.</p> <p>The Mt. Horeb Scholarship now has an institutional memory within HPLF. Annual reminders are set in the Executive Director's Outlook calendar and within the QuickBooks system. The distributions will continue through 2021.</p> | <b>Closed</b> - Audit obtained and reviewed HPLF's narrative regarding revised processes to manage the scholarship fund distribution, HPLF's Board Meeting agendas, and copies of the scholarship disbursements. A test was performed to determine that scholarships are being distributed to students. Management's remediation procedures were adequate to close this finding. | <b>Adequate</b>     |



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