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NEWS RELEASE

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FOR RELEASE _____ April 13, 2016 _____

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Dubuque Carnegie-Stout Public Library for the period July 1, 2008 through April 24, 2014. The special investigation was performed as a result of concerns regarding undeposited collections.

Mosiman reported an internal investigation was initiated by Library officials after it was determined a deposit in April 2014 was less than the amount expected. A library official also identified an unusually large number of "No Sale" transactions recorded on the Library's cash register tape by Barbara Nyheim, a part-time Library employee, for the same day. Mosiman also reported the special investigation verified \$52,595.24 of undeposited collections identified by the internal investigation for the period July 1, 2008 through April 24, 2014.

In addition, Mosiman reported theft charges were filed against Ms. Nyheim after the Dubuque Police Department completed a review for the period July 1, 2012 through April 24, 2014. The review completed by the Police Department did not include the period prior to July 1, 2012 because certain records were not available from the City for that period. Ms. Nyheim pled guilty to first-degree theft and was ordered to pay a fine, court costs, and \$25,000.00 of restitution to the Library. At the time of Ms. Nyheim's sentencing, media reports also included a disclosure Library officials had identified approximately \$53,000.00 of undeposited collections over a period of 6 years.

Copies of the report have been filed with the Iowa Division of Criminal Investigation, the Dubuque County Attorney's Office, and the Iowa Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1420-0288-TE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF DUBUQUE
CARNEGIE-STOUT PUBLIC LIBRARY

FOR THE PERIOD
JULY 1, 2008 THROUGH APRIL 24, 2014**

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Auditor of State's Report

To the Honorable Mayor, Members of the City Council
and the Carnegie-Stout Public Library Board:

As a result of concerns regarding certain collections, we conducted a special investigation of the City of Dubuque Carnegie-Stout Public Library (Library). We have applied certain tests and procedures to selected financial transactions of the Library for the period July 1, 2008 through April 24, 2014. Based on discussions with Library officials and personnel and a review of relevant information, we performed the following procedures:


- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Obtained and reviewed the supporting documentation prepared by the Dubuque Police Department and the Director of Carnegie-Stout Public Library during its internal investigation to verify the completeness and accuracy of the documentation presented.
- (3) Obtained and reviewed the bank statements for personal bank accounts held by Barb Nyheim, a former clerk at Carnegie-Stout Public Library, to identify the source of certain deposits and to compare deposit dates to Ms. Nyheim's scheduled work days and hours.


The procedures verified \$52,595.24 of undeposited collections for the period July 1, 2008 through April 24, 2014. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Dubuque Carnegie-Stout Public Library, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Iowa Division of Criminal Investigation, the Dubuque County Attorney's Office, and the Iowa Attorney General's Office.

We would like to acknowledge the assistance extended to us by officials and personnel of the City of Dubuque Carnegie-Stout Public Library during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 1, 2015

Report on Special Investigation of the
City of Dubuque
Carnegie-Stout Public Library
Investigative Summary

Background Information

In accordance with Chapter 11 of the *Code of Iowa*, the Office of Auditor of State was contacted by a representative of the CPA firm engaged to perform the City of Dubuque's financial statement audit regarding concerns related to the City's library. According to the representative, the City's Finance Director reported to him a possible misappropriation had been identified at Carnegie-Stout Public Library (Library) which appeared to have taken place over approximately 6 years. The City's Finance Director also reported law enforcement had been notified and the City was considering engaging a separate CPA firm to assess the related internal controls. The representative of the CPA firm which provided the notification agreed to contact the Office of Auditor of State regarding any procedures they were going to perform once that had been determined.

After some time had passed without any subsequent contact from the CPA firm and after seeing media reports a former employee was charged with theft from the Library, we spoke directly with City representatives and learned procedures had not been performed by the City's CPA firm or another independent party to determine the loss to the Library. However, using records available from the Library for the period July 1, 2012 through April 24, 2014, the Dubuque Police Department had performed certain procedures which identified \$17,906.38 of undeposited collections. We also learned Library personnel performed procedures using the limited Library records available for fiscal years 2009 through 2014 which identified \$52,595.24 of undeposited collections.

An internal investigation was initiated after the Library's Circulation Supervisor determined a particular day's deposit in April 2014 was less than the amount expected. The Circulation Supervisor also identified an unusually large number of "No Sale" transactions recorded on the Library's cash register tape by Barbara Nyheim, a part-time Library employee, for the same day. After the Circulation Supervisor alerted the Library's Director of his concerns, the Director initiated the internal investigation which began on April 15, 2014. According to Library officials, a number of undeposited collections were identified by April 17, 2014.

Ms. Nyheim began working part-time at the Library on July 24, 2005 as a cashier/library assistant. As a cashier/library assistant, Ms. Nyheim processed payments for video and book rentals, collected fines and fees, established new library cards for patrons, and processed retail sales of Library t-shirts and book bags. She was terminated from employment on April 24, 2014 as the result of the internal investigation performed by Library officials.

The Dubuque Police Department was contacted in April 2014 regarding the irregularities identified by Library officials. The officer assigned to review the Library's collection records identified \$17,906.38 of undeposited collections for the period July 1, 2012 through April 24, 2014. However, the procedures performed by the officer were limited to days and times Ms. Nyheim's timesheets documented she was working at the Library. Theft charges were filed against Ms. Nyheim after the Police Department completed its review. Ms. Nyheim subsequently pled guilty to first-degree theft and was ordered to pay a fine, court costs, and \$25,000.00 of restitution to the Library. At the time of Ms. Nyheim's sentencing, media reports included a disclosure Library officials had identified approximately \$53,000.00 of undeposited collections over a period of 6 years.

In order to verify the amount of undeposited collections identified and determine if there were any additional undeposited collections, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2008 through April 24, 2014.

Detailed Findings

Additional Information from Dubuque Police Department - During an interview with a police officer on July 1, 2014, Ms. Nyheim stated she improperly removed money from the Library's cash register. She estimated she had withheld approximately \$25,000.00 of collections from the cash register "since the renovation of the Library", which was during 2009. She also stated she waived fines from the Horizon system for her patron account and patron accounts for family members.

The Dubuque Police Department obtained and reviewed Ms. Nyheim's personal bank account and identified \$7,557.00 of cash deposits from June 1, 2012 through April 29, 2014. As previously stated, the Police Department determined \$17,906.38 of Library collections were not properly deposited from July 1, 2012 through April 24, 2014. When asked about the source of the \$7,557.00 of cash deposits during the interview, Ms. Nyheim was not able to provide an answer. However, she stated she did not deposit all the cash she removed from the Library's cash register. She specified she spent some of the cash from the Library on groceries or gas rather than depositing it to her bank account.

A representative of the Police Department also determined an additional \$26,642.85 of cash was deposited to Ms. Nyheim's personal bank account from January 1, 2009 through May 31, 2012. However, because sufficient records were not available from the Library prior to July 1, 2012, it was not possible to compare the amount of undeposited collections from the Library to the amount of cash deposited to Ms. Nyheim's personal account for this period.

We reviewed copies of the deposit slips obtained by the Police Department which were used to determine the amount of cash deposited to Ms. Nyheim's personal bank account and concurred with the amount of cash deposits identified.

Library's Internal Investigation - While the internal investigation by Library officials was not complete at the time of the Police Department's report, additional procedures completed as part of the internal investigation resulted in a total of \$52,595.24 of undeposited collections identified for the period July 1, 2008 through April 24, 2014. As previously stated, cash register tapes were not available prior to July 1, 2012. However, Library officials used amounts deposited to the Library's bank account in place of the cash register tapes when determining if collections were properly deposited from July 1, 2008 through June 30, 2012.

The results of the internal investigation are summarized in **Table 1** by fiscal year. The amount of undeposited collections identified by Library officials includes the \$17,906.38 identified by the Police Department.

Fiscal Year	Amount of Undeposited Collections Identified
2009	\$ 2,700.68
2010	3,603.72
2011	9,089.14
2012	13,038.54
2013	14,274.26
2014*	9,888.90
Total	<u>\$ 52,595.24</u>

* - Through April 19, 2014

As previously stated, Ms. Nyheim stated during her interview with a representative of the Police Department she did not deposit all the cash she removed from the Library's cash register because she spent some of it on groceries or gas. It was also determined Ms. Nyheim deposited \$34,199.85 of cash to her personal bank account from January 1, 2009 through May 31, 2014. As a result, the amount of undeposited collections identified during the internal investigation appears reasonable based on the amount of cash Ms. Nyheim deposited to her personal bank account and her statement she spent some of the cash she removed from the Library's cash register.

The City filed a claim with its insurance carrier for this amount and received a check for \$47,595.24 on December 8, 2014, which was the amount of the claim less a \$5,000.00 deductible.

Review of Undeposited Collections Identified – We obtained a summary of the testing procedures performed by the Police Department and supporting documentation from the Library, including cash register tapes and reports generated from the "Horizon" system. Prior to December 2014, Horizon was the Library's operating software used to check materials in and out of the Library. It was also used to manage patron accounts, including information regarding the amount of fines and fees owed and paid by patrons. The Horizon system was not integrated with the activity recorded in the Library's cash register system.

Using the cash register tapes and reports from Horizon, we verified the completeness and accuracy of the \$17,906.38 of fees and fines collected but not deposited identified by the Police Department for the period July 1, 2012 through April 24, 2014. Procedures could not be performed for the fees and fines collected prior to July 1, 2012 because cash register tapes were not available for this period.

In addition to reviewing the dates and times Ms. Nyheim was working, we also reviewed the cash register tapes and reports from Horizon for certain dates and times Ms. Nyheim's timecards documented she was not working. We determined there were small variances between the collections recorded for patron accounts in Horizon and collections recorded on the cash register tapes for these dates and times, but the differences were minimal and easily attributed to small cash overages and underages which are not unexpected when dealing with a cash drawer.

We also obtained documentation of the testing procedures performed for the Library's internal investigation. Using the documents obtained from Library officials, including documentation of the Library's deposits prior to July 1, 2012, we verified the \$52,595.24 of undeposited collections identified during the internal investigation. In addition, we did not identify any additional undeposited collections.

However, the \$52,595.24 of undeposited fees and fines identified does not include collections for the sale of materials, such as library bags, which may not have been properly deposited and not recorded in Horizon. During the Library's internal investigation, videos of employees working at the cash register were recorded. According to a Library official, the video shows Ms. Nyheim sold library bags to patrons but the sales were not recorded in the cash register. The Library official also stated the amount of collections for used book sales for the Friends of the Library doubled after Ms. Nyheim's termination.

Because sales of library bags and used books were not recorded, the undeposited collections would not be identified when the day's sales were balanced with the amount of cash in the drawer at the end of the day. In addition, because the sales of these types of items were not recorded in Horizon, unrecorded sales would not be identified when the activity in Horizon was compared to the cash register tapes. As a result, the amount not properly deposited for the sales cannot be determined and was not included in the undeposited collections identified by the Police Department or the Library's internal investigation.

The \$52,595.24 of undeposited fees and fines identified also does not include any fines or fees waived by Library employees for friends and family members. The Horizon software system allowed Library employees to clear fines and fees without authorization.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by Carnegie-Stout Public Library to process receipts. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations.

The City engaged a CPA firm which issued a report dated October 10, 2014 titled "Internal Audit of City's Controls of Cash Receipting Process." In addition, the Library implemented certain procedural changes in December 2014 to address concerns identified by the audit. Internal control weaknesses and the related improvements made by the Library after December 2014 are summarized below.

- A. Cash Register – The following concerns were identified regarding the use of the Library's cash registers.
- (1) Employees were required to login to use the cash registers, but the login numbers were only 2 digits long and were not kept confidential. As a result, many employees knew other employees' login numbers.
 - (2) A "No Sale" button located on the cash register was used by employees to place credit card receipts in the register. However, the "No Sale" button also allowed employees to open the cash register when there were no transactions. In addition, the "No Sale" button allowed Ms. Nyheim and possibly other employees to open the cash drawer when there were transactions but not properly record the transactions.
 - (3) The cash registers were not linked with Horizon, the Library's operating system for patrons.

According to Library representatives, new cash registers were installed which resolved these concerns. Specifically,

- (1) The new cash register system requires a unique user identification and password for each employee.
 - (2) The "No Sale" button still exists, but employees are required to record a reason for the "No Sale" transaction in order for the drawer to open.
 - (3) The cash registers and the Library's updated operating system communicate with each another. As a result, employees cannot open a cash register without updating a patron's account on the Koha system.
 - (4) Credit card receipts are now put into the cash register through a slot on the front of the cash register.
- B. Computer System – The Horizon computer system used to track Library patrons' accounts did not have sufficient safeguards in place to address the following concerns.
- (1) The Horizon computer system did not require a login process for employees. Once a computer was turned on, the Horizon system was available for anyone to use. As a result, all employees were able to make changes to Library patrons' accounts.

- (2) The Horizon computer system was not linked to the cash register to ensure transactions recorded in one were properly recorded in the other.

As a result of the concerns identified, a new computer system, Koha, was installed and became operational during December 2014.

- (1) Koha requires employees to login with unique user identifications and passwords.
- (2) Koha and the cash register are linked together. As a result, when the cash register is opened, the type of transaction and activity is recorded in the patron's account in Koha.
- (3) Only the Library's information technology staff and the circulation employees have access to the new computer system.

C. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cashiers, including Ms. Nyheim, had control over each of the following:

- (1) collecting customer payments,
- (2) recording payments in the cash register and Horizon,
- (3) voiding transactions and waiving fees, and
- (4) issuing refunds.

We also determined supervisory approval was not required for refunds and/or voided transactions. According to Library representatives, as a result of the concerns identified, written policies and procedures have now been implemented, including:

- (1) Cashiers must sign in and sign out of the cash register with a unique user identification number and password.
- (2) Cashiers no longer record transactions in the Library's operating system. The Koha system automatically interfaces with transactions recorded in the cash register.
- (3) "No Sale" transactions are still allowed, but the employee must record a reason for the transaction in the computer system before the drawer will open.
- (4) Supervisor approval is now required to issue refunds and waive fees which exceed \$5.00.

D. Deposits – Deposits were previously made on Thursdays and Mondays. In addition, while the deposits were reconciled to information recorded in the Horizon system, variances were not resolved.

According to Library representatives, deposits are now made every morning and are reconciled to the Koha system. Any variances identified are resolved.

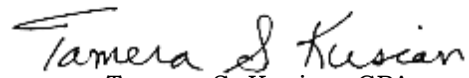
E. Check Endorsement – "For Deposit Only" was not placed on all checks received immediately upon receipt. According to Library representatives, a "For Deposit Only" stamp was purchased and each check received is now immediately stamped with the restrictive endorsement.

Report on Special Investigation of the
City of Dubuque
Carnegie-Stout Public Library

Staff

This special investigation was performed by:

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