

INFORMATION CALENDAR

September 15, 2020

**To:** Honorable Mayor and Members of the City Council**From:** Jenny Wong, City Auditor *zw***Subject:** Berkeley Public Library Uses Tax Funds by the Book, But More Internal Controls NeededCURRENT SITUATION AND ITS EFFECTS

The Library's use of the tax fund for non-personnel expenditures was in line with the provisions of the tax measure during our audit period of fiscal year 2018. We did not find any indication of fraud, waste, or misuse of tax funds. However, we did find that some of the Library's internal controls can be improved to allow for better transparency in purchase approval, continued alignment with the tax measure, and fiscal accountability.

The Library does not have a policy specifying how and when the reserve can be used, or how it should be replenished after use. Without a reserve policy, there is a risk that the Library may not have enough reserve funds to be stable and functioning during periods of economic uncertainty.

While we did not find fraud or theft, the Tool Lending Library's internal controls system does pose a risk of misusing funds due to insufficient inventory controls and documentation of items added to and removed from the Library's collection catalog.

The Library has improved transparency about its collection management, but there are opportunities to increase public trust. Collection management is the process by which the Library ensures that their collections are relevant, engaging, and appealing by adding new items and removing items that are damaged or out-of-date. The Library has taken steps such as posting the collection management plan online and including updates on collection management in updates during public Board meetings.

Strategic planning and ongoing program evaluation are important tools in ensuring accountability for public funds. The Library currently does not have a strategic plan nor does it consistently evaluate its programs to measure progress towards its goals. Planning was on hold pending the hiring of a new library director and this position has recently been filled.

To mitigate the risks we found, we recommend the Library develop and implement a strong reserve policy and implement purchasing procedures with sufficient internal controls for the Tool Lending Library. To be transparent with the public about collection management using tax

funds, we recommend the Library incorporate it into the Library's developing outreach and communications strategies. We recommend the management and Board support the new director in developing a strategic plan, as well as develop and implement a program evaluation process.

At the meeting of the Board of Library Trustees (BOLT) on September 5, we recommended that the Board request that the Library Executive Director report back to BOLT by March 2021, and every six months thereafter, regarding the status of our audit recommendations until reported fully implemented by the Library.

BACKGROUND

The Library's main source of funding is the Library Tax Fund, created in 1980 when Berkeley voters passed the Library Relief Act to support library operations through a special tax on the square footage of taxable improvements, or residential and commercial buildings and units built in the City of Berkeley. In 1988, voters passed an amendment to make the tax permanent. However, every four years, voters must reauthorize the City to spend the Library Tax Fund.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with this report.

RATIONALE FOR RECOMMENDATION

It is important that the Library continues to align with the purpose of the Library Tax Fund so Berkeley voters will continue to authorize use of the tax. While the Berkeley community generally supports the Library, there is some risk that voters may not reauthorize the taxes if there are significant concerns about how the Library manages public funds. This could reduce or eliminate this funding stream and impact service delivery. These funds may also come under greater scrutiny as the City faces multi-year revenue shortages due to the COVID-19 pandemic.

CONTACT PERSON

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Attachment:

Audit Report: Berkeley Public Library Uses Tax Funds by the Book, But More Internal Controls Needed

Audit Report  
August 27, 2020

# **Berkeley Public Library Uses Tax Funds by the Book, But More Internal Controls Needed**



BERKELEY CITY AUDITOR



# Berkeley Public Library: Library Uses Tax Funds by the Book, But More Internal Controls Needed

## Report Highlights

August 27, 2020

### Findings

1. The Library's transactions aligned with the purpose of the Library Tax Fund in fiscal year 2018. Additionally, we did not find indicators of fraud, waste, or misuse in our review of transactions.
2. Some of the Library's internal controls can be improved to allow for better transparency in purchase approval, continued alignment with the tax measure, and fiscal accountability.
3. The Library currently does not have a strategic plan, though the Library has set some goals and developed budget priorities. The Library also does not consistently evaluate its programs to measure progress towards goals.

### Recommendations

To guide the Board of Library Trustees (Board) in authorizing use of the funding reserve, we recommend the Library develop and implement a reserve policy that clearly defines use of the reserve. To ensure the Board is informed about the budget in their governance role, we recommend the Library coordinate a public workshop on the Library budget. We also recommend the Library implement stronger controls to address control weaknesses in the Tool Lending Library's purchasing process. Finally, we recommend the Library formally adopt a practice of communicating with the public about how it uses the Library Tax Fund to develop its collection.

To address the need for strategic planning, we recommend the management and Board support the new permanent director in developing a strategic plan. To assess whether the Library's programs and activities meet community needs over time and align with its strategic plan, we recommend the Library develop and implement a program evaluation process.

### Objectives

1. Does the Library use the Library Tax Fund appropriately?
2. Are there any internal control risks that could affect appropriate use of the Library Tax Fund?
3. To what extent does the Library plan and evaluate its use of the Library Tax Fund?

### Why This Audit Is Important

Berkeley Public Library is a treasured public space and information resource for Berkeley's diverse community. We audited its use of the Library Tax Fund to ensure that the Library is spending its funding appropriately as it continues to meet evolving community needs. This audit is part of an effort to audit activities funded by special taxes. It is important to provide some assurance to the community that the Library is spending public funds in the manner Berkeley voters approved. Additionally, identifying recommendations for improvement can help the Library ensure it can weather financial uncertainty, be consistent in good internal control practices, plan how it will use the Library Tax Fund to meet community needs, and evaluate whether it has achieved those goals.



BERKELEY CITY AUDITOR

For the full report, visit:

<http://www.cityofberkeley.info/auditor>

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## Introduction

Berkeley Public Library (Library) is a treasured public space and information resource for Berkeley's diverse community. About 110,100 people had library cards in 2018. In 2019, the Library was also one of only 13 California libraries to earn a 4-star rating from Library Journal for high rate of circulation, visits to the library, and patron use of internet and computers.<sup>1</sup> Public support of the Library is evident in voters' ongoing support for a special tax on the square footage on taxable improvements of residential and commercial property that generated over \$19 million in revenue in fiscal year 2018 to fund Library operations.

To ensure that the Library continues to be able to meet community needs as they evolve, we audited its use of the Library Tax Fund. This audit is part of an ongoing effort to audit activities funded by special taxes. We found that the Library's use of the Library Tax Fund was in line with the provisions of the tax measure. We also did not find any indication of fraud, waste, or misuse of the Library Tax Fund. However, we did identify some areas of risk that the Library should address to ensure it continues to align with the Library Tax Fund into the future.

We completed work for this audit just before the onset of the COVID-19 pandemic. We revised our report to reflect impacts of the pandemic on our findings and recommendations.

## Objectives, Scope, and Methodology

The objectives of this audit were to address the following questions:

- 1. Does the Library use the Library Tax Fund appropriately?**
- 2. Are there any internal control risks that could affect appropriate use of the Library Tax Fund?**
- 3. To what extent does the Library plan and evaluate its use of the Library Tax Fund?**

<sup>1</sup> Library Journal is an American trade publication for librarians. The rating system ranks libraries into budget groups, and assigns up to a 5-star rating based on patron statistics including: circulation, e-circulation, in-person visits, program attendance, and public internet computer users.

We limited our evaluation of the Library's use of the Library Tax Fund to non-personnel expenditures in fiscal year 2018 (July 1, 2017 – June 30, 2018).

To address the objectives, we reviewed transactions for alignment with the provisions of the tax measure, and assessed the Library's internal controls for risk of fraud, waste, or misuse. We also interviewed Library management, staff, and the Board of Library Trustees. We reviewed the Library's evaluation activities. To understand how Berkeley Public Library compared to other libraries, we researched local and nationwide public library practices and trends. For more information on our methodology, see page 19.

This report contains some information about fiscal year 2020 and later because the City's response to the COVID-19 pandemic began shortly before our report was originally scheduled to be released. We did a high level assessment of the potential impacts of the pandemic on the Library's budget and operations, and updated our findings and recommendations to reflect any changes.

## Background

Berkeley Public Library (Library) is a public library system with a central branch, four branch locations in different neighborhoods, and a Tool Lending Library. The highest staff leadership position in the Library is the director, who reports to the Board of Library Trustees (Board). City Council appoints members to the Board, which is a body of five volunteers from the community—one of whom is a City Council member—who are responsible for the management of the Library. It is the Board's responsibility to create and enforce the Library's policies, regulations, and bylaws.

The Library's main source of funding is the Library Tax Fund, created in 1980 when Berkeley voters passed the Library Relief Act to support library operations through a special tax on the square footage of taxable improvements, or residential and commercial buildings and units built in the City of Berkeley. In 1988, voters passed an amendment to make the tax permanent. Article XIII B of the California Constitution establishes a spending limitation on government agencies within California. This means that voters must reauthorize the City to spend tax proceeds in excess of certain spending limits every four years, including the Library Tax.

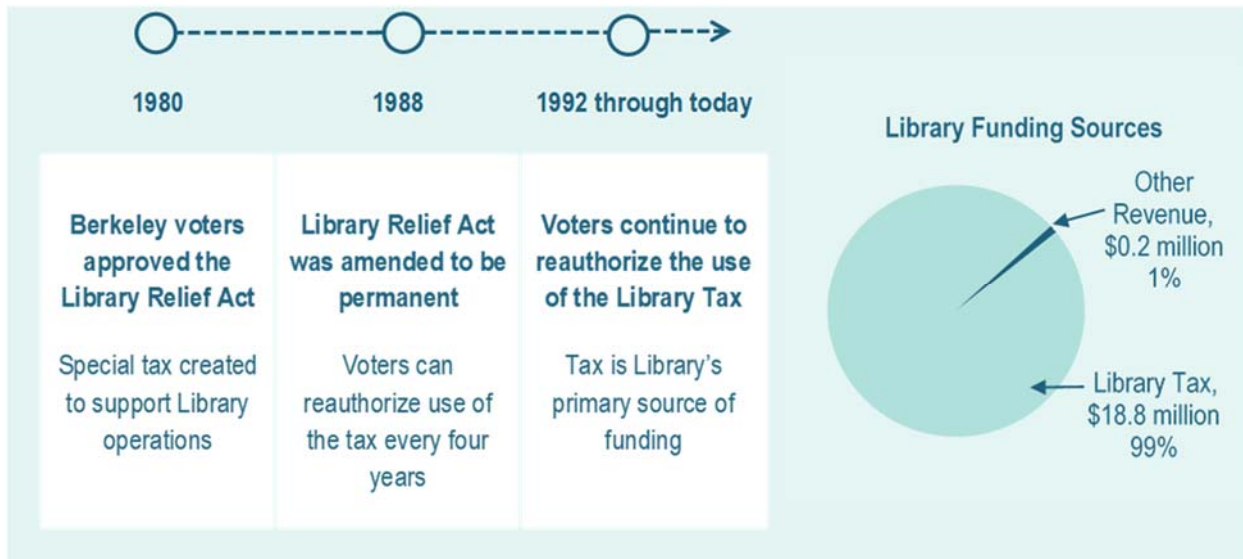
The Library Tax may be adjusted annually in proportion to either the Consumer Price Index for the immediate San Francisco Bay Area or the per capita Personal Income Growth factor in California, whichever is greater. In 2016, voters approved a single measure that reauthorized the City to spend all tax funds previously approved by voters, including the Library Tax Fund, through fiscal year 2020.

Today, the Library Tax is the Library's main source of funding and makes up 99 percent of its operating budget. Other sources of revenue make up less than one percent of the Library's funding and include some state funding as well as private funding from Berkeley Public Library Foundation and others (see Figure 1).

In Berkeley's municipal code, the Library Tax Fund is designated for maintaining the Library, and "paying all salaries and wages, and purchasing books, journals, periodicals and other supplies, and such other expenditures as are necessary to properly operate the libraries."

Provisions of the Library Tax allow exemptions for those with very low income. They also allow City Council to increase the tax rate based on cost of living in the immediate San Francisco Bay Area or personal income growth in California.

Figure 1. Overview of the Library Tax Fund



Sources: Library Relief Act ballot measures; City of Berkeley Fiscal Years 2018 & 2019 Adopted Biennial Budget

In March 2020, the COVID-19 pandemic began to cause devastating social and economic impacts in Berkeley and around the world. On March 16, the City's Public Health Director issued an order for residents to shelter-in-place and many public spaces closed. Many Library staff were then assigned to the City's Emergency Operations Center and assisted with contact tracing for COVID-19 testing locations among other essential duties. As of June 2020, Library management is anticipating that the pandemic will have the greatest impact on its ability to provide access to the community in the following areas:

- Physical spaces for studying, shelter, respite, quiet, etc.;
- Technology (free wireless, laptops, and public computers);
- Physical materials, especially reading materials for children;<sup>2</sup> and
- Public programming, particularly early literacy and adult literacy programs.

While assessing the full impacts from the pandemic fall outside the scope and timeframe of this audit, we acknowledge the significance of these impacts on the Library and the community as a whole. The recommendations in this audit promote internal controls and practices intended to strengthen the Library's ability to navigate financial challenges and meet community needs during this difficult time and into the future.

## The Library spent the Library Tax Fund by the book.

The Library's transactions align with the purpose of the Library Tax Fund. In Berkeley's municipal code, the Library Tax Fund is designated for maintaining the Library, and "paying all salaries and wages, and purchasing books, journals, periodicals and other supplies, and such other expenditures as are necessary to properly operate the libraries." We reviewed a statistically significant number of transactions across a range of spending categories, including books and media, the Tool Lending Library, contracted services, staff travel, and technology. All transactions we reviewed align with the purpose of the Library Tax measure. Further, we assessed whether those transactions followed the provisions of the Library's purchasing policies. Additionally, we did not find indicators of fraud, waste, or misuse in our review of transactions.

This is especially notable given that the Library has experienced instability in its leadership. Since 2014, there have been three directors who served for a year or less and three instances of members of library management serving as interim directors. As of July 2020, the current deputy director has served as both deputy director and interim director for almost three years. Additionally, City Council replaced two Board members in 2017. High turnover in oversight positions and management can create a risk that an organization may not have the leadership needed to stay on track to fulfill its purpose. However, the Library's appropriate use of the Library Tax Fund suggests that it has stayed on track during the past few years of transition.

It is important that the Library continues to align with the purpose of the Library Tax Fund so Berkeley voters will continue to authorize expenditures funded by the tax. The 1980 Library Relief Act authorized the City to impose a special tax to raise the revenue necessary to operate the Library. Though the tax is permanent, it requires voter authorization every four years for expenditures. While the Berkeley community generally supports the Library, there is some risk that voters may not reauthorize tax funded expenditures if there are significant concerns about how the Library manages public funds. This could reduce this funding stream and impact service delivery. These funds may also come under greater scrutiny as the City faces multi-year revenue shortages due to the COVID-19 pandemic.

The Library recently hired a new director scheduled to start September 21, 2020.

The Library Tax includes exemptions for low income property owners and non-profit organizations. City Council can increase the tax rate to reflect cost of living.



## Internal control risks could affect the Library Tax Fund.

Some of the Library's internal controls can be improved to allow for better transparency in purchase approval, continued alignment with the tax measure, and fiscal accountability. First, the Library does not have a strong reserve policy at a time when the COVID-19 pandemic poses risks for Library revenues and the reserve. Second, there are some control risks in the Tool Lending Library purchasing process. Third, the Board needs more information about the budget. Fourth, though the Library has improved transparency about its collection management, there are opportunities to increase public trust. Finally, the Library could improve on a minor contract issue involving mixed funding.

### The COVID-19 pandemic poses challenges for Library revenues and the reserve.

One main challenge due to the COVID-19 pandemic is that Library revenue will be somewhat reduced while some expenditures will increase in fiscal year 2021. In March 2020, the COVID-19 pandemic caused Bay Area businesses and schools to close. Unemployment rates spiked and many in the Berkeley community experienced financial stress. The Board took these financial hardships into account when it approved a resolution in June 2020 to recommend that City Council not increase the Library Tax rate for fiscal year 2021. Instead, the tax rate will remain unchanged from fiscal year 2020. By not adopting a tax rate increase of 3.73 percent—the current per capita Personal Income Growth factor in California—the Library's projected library tax receipts for fiscal year 2021 will be reduced by an estimated \$760,000. Additionally, costs for two critical in-progress construction projects will in large part be deferred until fiscal year 2021 because work was delayed due to Berkeley's shelter-in-place orders. According to the interim director, overruns and change orders related to these delays will increase overall project costs.

Another challenge, according to the Library's June 2020 budget update for fiscal year 2021, is that the Library projects that it will be necessary to tap into its reserve as soon as fiscal year 2023 should no material actions be taken to reduce the usual ongoing operational costs. The Library's revenue loss in fiscal year 2021 will be offset by a citywide hiring freeze and salary savings from resignations and retirements, as well as a carried over fund

The Library Tax is adjusted annually in proportion to either the Consumer Price Index for the immediate San Francisco Bay Area or the per capita Personal Income Growth factor in California, whichever is greater. This has resulted in a tax rate increase that averaged 3.08 percent annually between 2014 and 2018.

balance from fiscal year 2020. However, the economic downturn and decreased revenue from taxes is expected to continue for several years. Library management plans to address this issue during its upcoming biennial budget process beginning in late 2020.

The unexpected pandemic and the uncertainty of economic impacts and recovery over the next several years highlight the importance of having a reserve to help weather such economic uncertainty. In 2017, the Board approved the current reserve amount of \$1.5 million for unanticipated emergencies, which is the estimated amount needed to maintain Library operations for 30 days. The reserve is a portion of funds within the Library Tax Fund that the Library commits to not spend unless the Board explicitly authorizes it. However, the Library does not have a policy specifying how and when the reserve can be used, or how it should be replenished after use.

Without a reserve policy, there is a risk that the Library may not have enough reserve funds to be stable and functioning during periods of economic uncertainty. A strong reserve policy mitigates this risk by defining appropriate use of the reserve. It also guides decision makers as they consider authorizing withdrawals. We can look to the City of Berkeley's reserve policy to illustrate to some features of a strong policy that are missing from the Library's reserve fund. In 2020, City Council amended the City's reserve policy to allow for its use to enhance fiscal stability and address some of the financial impacts caused by the COVID-19 pandemic. The list below are features from the City's strong reserve policy.

- **Defined situations in which use of the reserve may be considered.** The City's reserve policy defines two separate funds that may be used in different situations, though they may be concurrent. The Stability Reserve is intended to help the City mitigate loss of service delivery and financial risks associated with unexpected revenue shortfalls. The Catastrophic Reserve is intended to sustain core operations in the case of a public emergency such as a natural disaster. These criteria set boundaries around when Council should consider tapping into the reserve.
- **Plan for how the reserve will be funded or replenished if used.** The City's reserve policy specifies how it will reach its reserve goals when initially building the reserve and replenish it after withdrawals are made. This helps ensure that the City is prepared to maintain fiscal stability and rebuild its reserve to prepare for future situations that may require use of the reserve.

- **Commitment by Council to specify the exact purpose and timeline for any use of reserve funds, with some flexibility as needed.** Stating the specific use for any withdrawal from the reserve and the timeline for use of those funds allows the City to carefully plan how it will use the funds before withdrawing. It also compels the City to not overly rely on reserve funds, but rather use them only as needed and alongside other cost saving and revenue generating strategies to mitigate financial impacts.
- **Allowable amount to withdraw per incident.** The City adopted language to limit how much it can withdraw per incident in response to the multi-year fiscal impact of the pandemic. While there may be too much uncertainty to establish a specific limit, some language about limiting the amount that may be used per incident and/or fiscal year can help ensure that the reserve fund has a balance in the unfortunate event that multiple emergencies occur, such as an earthquake that interrupts service after the onset of a pandemic.

The Library's need and use of reserve funds may be fundamentally different from the City's, but it is still important for the Library to strengthen its reserve policy to ensure that it can weather financial storms and avoid unnecessary interruption of the services it provides to the community.

### Internal control weaknesses in the Tool Lending Library pose a risk of theft or misuse.

While we did not find fraud or theft, the Tool Lending Library's internal controls system does pose a risk of misusing funds. During fiscal year 2018, the tool lending specialists were assigned to receive newly purchased tools. They were also assigned to both add newly purchased tools to the Library's catalog system as well as delete damaged or worn out tools. While there is no indication that personal use took place during our review, this process created the risk that staff could either keep tools for personal use and not enter them into the catalog, or delete tools from the catalog for personal use. According to best practices of purchasing, the responsibility for purchasing tools and adding them to the catalog should be assigned to different staff. Separation of these duties is an important internal control to help prevent fraud, waste, and misuse.

Tool lending specialists work in the Tool Lending Library and provide tools, equipment, instructional manuals, and basic reference service regarding home maintenance and repair to patrons of the Berkeley Tool Lending Library. They also order, maintain, and repair tools and equipment.

After we learned about this risk, Library staff stated that they implemented a new catalog system and that Central Library staff, not Tool Lending staff, were now responsible for entering and deleting tool records from the catalog as needed. We have not been able to verify this at the time of this report. The Library still does not have a process to verify that staff enter new tools into the catalog or delete tools no longer in use. There is also no record for changes made to the catalog. As a result, there is still a risk that staff could remove tools from the collection for personal use.

It is important to note that the portion of the Tool Lending Library's expenditures funded by the Library Tax was in fiscal year 2018 was relatively low and makes up less 0.1 percent of the Library's total tax-funded expenditures of about \$19 million that year. Though the amount of Tool Lending Library funds at risk due to control weaknesses is relatively low, it is still good practice for the Library to maintain a consistent level of internal controls across all purchasing processes.

### The Board of Library Trustees does not always have the information it needs to make decisions about the budget.

Some members of the Board do not think they have information to be fully prepared to make budget decisions. The Board needs sufficient information about the budget and contracts to strengthen its oversight and ensure the Library is planning to spend the Library Tax Fund appropriately. During the budget process, Library management develops a draft budget and discusses it with the Board during at least two Board meetings to prepare them to approve the final budget. Library management also offers the Board a public budget workshop intended to allow the Board and patrons to learn about and discuss the draft budget. Library management provides quarterly budget reports to the Board throughout the fiscal year.

There is a disconnect between the information library management provides and some Board members' preparedness to oversee the budget. Although Library management provides budget information and opportunities for the Board and patrons to have input and ask questions, some Board members reported that they have different levels of knowledge about organizational budgets in general. Some also stated that they or their peers do not have the information they need to oversee the budget. The Board is composed of volunteers from the community with varying levels of experience in local government finance and budgeting.

## The Library has improved transparency about its collection management, but there are opportunities to increase public trust.

The Library has taken action to promote transparency regarding its collection management process. Collection management is the process by which the Library ensures that their collections are relevant, engaging, and appealing by adding new items and removing items that have excessive wear, are damaged, or contain outdated information in order to make room for new materials. Transparency in collection management can help inform the public about how the Library uses public funds and maintain public trust in the Library.

In past years, decisions about how the Library has managed its collection have caused concern among some Library staff and community members. That situation is beyond the scope of this audit and we therefore did not evaluate the specific processes and procedures associated with the Library's collection management plan or the extent to which librarians followed the plan. However, because the collection management plan influences the Library's use of the Library Tax Fund to purchase books and media, we did evaluate whether the Library is transparent about collection management.

We found that the Library has taken some steps to be more transparent about collection management. In 2017, the Library released a collection management plan which is posted on the Library's website. The plan was developed based on feedback from staff and the community as well as data on use of the collection. According to the plan, it is a "living document" intended to change as the Library identifies new strategies and opportunities to better respond to and serve the Berkeley community (see text box for more detail about the purpose of the plan).

An excerpt from the Library's collection management plan describes its purpose: "[This plan is] a comprehensive and flexible guide that informs and supports staff's collection management work, and clarifies how collection decisions are made. The plan presents an overarching description of what kind of content BPL will provide and how materials are selected, maintained, organized, and, when appropriate, removed. The plan details the role of staff; strategies for collaborative decision-making; selection guidelines; deselection criteria; and other operational elements, procedures, and practices related to collections and implementation of the Collection Management policy."

According to the interim director, in 2017, the Board updated its collection management policy to require the Library to create a plan for how it manages its collection with the goal of providing access to a collection that is relevant, engaging, and appealing.

In addition to publicly posting the collection management plan, Library staff have given presentations describing the collection management process at public Board meetings. The interim library director has also regularly reported to the Board at public meetings about collection management, such as describing new additions to the collection, e-book resources, and the process of purchasing high quality materials for collection areas in which the community has expressed an interest.

The Library also began including some information about the collections into its newsletter, website, and social media posts. Over the past year, the Library has begun emphasizing information about the collection in its newsletter. Examples include newsletters that highlighted electronic resources available and in high demand, LGBTQ-focused collections, and refreshed anti-racism materials in response to community interest and a nationwide anti-racism movement. The supervising librarian of collection services has begun an ongoing process to improve collection access through the catalog in various ways, including creating many more catalog records for electronic materials and organizing genres content. The Library has also updated its website to center electronic media in response to greater demand during the Library's closure during the COVID-19 pandemic. Additionally, the Library has recently made some effort to promote its collections through social media posts.

While these steps improve transparency, to strengthen public trust, it will be beneficial to continue to provide the public information about how the collection grows and changes over time to reflect community interests. One way to accomplish this is by formally incorporating collection management into the Library's policies or plans for public outreach and communications strategies.

### The Library agreed to address a minor issue in contract transparency.

There is some risk in the Library's use of contracts with mixed funding sources. We found that a contract for a laptop borrowing kiosk paid for with funds from the Berkeley Public Library Foundation, a private funding source, did not specify that maintenance costs and other fees would be paid with the Library Tax Fund. Consequently, this contract did not go through the City's competitive contract process. We found that the Library would use the Library Tax Fund to pay almost \$23,000 for the kiosk's installation, maintenance, and license and service fees during the three-year contract term. Though this

contract did include a waiver of the requirement for competitive bidding due to the manufacturer's exclusive right to service maintenance in regards to preserving the product's warranty, it did not specify that the Library would use the Library Tax Fund to cover the \$23,000 in miscellaneous fees and other ongoing servicing costs. As a result, this contract was not completely transparent in identifying the use of the Library Tax Fund for these other costs. We determined that this did not demonstrate a significant risk to the Library because we only found one example of this. Management agreed to mitigate this risk by including information about multiple funding sources in future contracts.

## Recommendations

- 2.1** To guide the Board of Library Trustees in authorizing use of the reserve, we recommend the Library develop and implement a reserve policy. We recommend that the policy:
- Define situations in which use of the reserve may be considered;
  - Include a plan for how the reserve will be funded or replenished if used;
  - Specify the exact purpose and timeline for any use of reserve funds, with some flexibility as needed; and
  - Specify the allowable amount to withdraw per incident and/or fiscal year.
- 2.2** To strengthen controls at the Tool Lending Library, we recommend the Library develop and implement purchasing procedures that require staff to:
- Document that all purchased items are entered into the catalog;
  - Document that all tools are removed from the catalog at the end of their useful life and are properly disposed of; and
  - Implement and document oversight of the new procedures.
- 2.3** To strengthen Board governance over the budget and ensure that they have a shared baseline of budget knowledge, we recommend Library management provide a public budget overview session that is separate from regular Board meetings or refer the Board to budget training opportunities hosted by another agency.
- 2.4** To be transparent with the public about collection management using the Library Tax Fund, we recommend the Library continue to proactively communicate about how the collection is growing and changing to meet community needs, and formally incorporate collection management into any outreach and communications policies and/or plans.

## There are opportunities for the Library to develop a strategic plan and evaluate its progress in implementing the plan.

Strategic planning and ongoing program evaluation are important tools in ensuring accountability for public funds. The Library currently does not have a strategic plan, through which the Library could plan how to use the Library Tax Fund to achieve its goals. The Board has, however, recently developed priorities, and stated its intent to pursue development of a strategic plan once a permanent director was in place. The Library also does not consistently evaluate its programs.

### The Library lacks a strategic plan.

Although a strategic plan could serve as an important internal control to help the Library continue to make budget decisions that align with the purpose of the Library Tax Fund, the Library does not have a current strategic plan. A strategic plan documents an organization's core priorities and strategic goals to fulfill its mission. When public service providers such as the Library align their budget priorities with their strategic plan, they demonstrate accountability to fulfill their mission and be transparent in how they use public funds. This can be especially beneficial for the Library because Berkeley's municipal code is relatively vague and open-ended about how the Library Tax Fund can be used. A strategic plan can help the Library define its purpose and be accountable to that purpose. To ensure that a strategic plan is flexible enough to allow the Library to pivot as needed to meet changing community needs, a strategic plan can also be adaptable and cover a time period that is most feasible to implement.

Without a strategic plan that sets priorities for how the Library should serve the community, there is some risk that the Library could potentially spend public funds in ways that do not align with the purpose. We determined that this risk is currently low, but could increase in the future due to changes in leadership or other unforeseen changes.

According to the interim director, the Library Board has postponed developing a strategic plan until a new permanent director was in place to lead the implementation. The Library had a three-year strategic plan that was expected to cover fiscal years 2016-2018, but the director at the time resigned



in late 2015 and interim directors after that did not continue implementing the plan. Since then, the position has either been filled on an interim basis or by someone who served for a year or less. At the time of writing, the Board recently hired a new director scheduled to start September 21.

The Library has taken steps to mitigate the risks of postponing the strategic planning process. One of those steps is that the Library developed strategic activities related to the City's strategic plan. A Library Council of roughly 25 Library staff in lead roles identified three key goals from the City's strategic plan that significantly relate to the Library's mission:

- Provide state-of-the art, well maintained infrastructure, amenities, and facilities;
- Champion and demonstrate social and racial equity; and
- Provide excellent, timely, easily-accessible services and information to the community.

In addition to these three goals, the Board has identified the priority of supporting community safety and wellness. The Library also added another goal to continually improve internal communications. These priorities have served as an interim guide for spending decisions in lieu of a more developed strategic plan.

In July 2020, the Board also approved a resolution to formally accept and adopt a mission and vision statement for the Library. Mission and vision statements document the aspirations of an organization and they serve as a foundation for a strategic plan. According to the interim director, engaging in this process before the new director was hired will help them "hit the ground running" in terms of developing a strategic plan for the Library.

### Definitions

**Mission statement:** The reason an organization exists, the need it is meeting in the community. An effective mission statement is concise, realistic, operational, inspirational, motivational, informative, and even emotional. It is not too abstract. The mission reflects the values and clearly states the purpose of the organization.

**Vision statement:** What the future holds for the community if the organization succeeds at its mission. The vision inspires action: planning, fundraising, marketing, good governance, sound management. It stimulates organizational goals.

Source: BoardSource, <https://boardsource.org/mission-vs-vision-3/>

Library lead roles included supervisors, senior librarians, and managers.

Additionally, the Board has adopted budget priorities in the absence of a strategic plan. Since the Library's previous strategic plan, which expired at the end of 2018, the Board has approved budget priorities to inform the budget for fiscal years 2020 and 2021.

1. Provide excellent, timely, easily-accessible services and information to the community.
2. Champion and demonstrate social and racial equity.
3. Provide state-of-the-art, well maintained infrastructure, amenities, and facilities.
4. Develop and enhance policies, practices, services, and assignments that promote community wellness and the safety and comfort of staff and all library users.
5. Harmonize efforts of the board, management, and staff to improve library services by beginning the process of implementation of the recommendations of the November 2018 Organizational Evaluation report.
6. Maintain the stability of the operating budget and plan for future operational needs – including establishing/maintaining a balanced budget.

While these priorities serve a somewhat different purpose than the long-term organizational priorities stated in a strategic plan, we determined that they are a reasonable approach to maintain transparency and accountability during this transitional time.

**The Library asks for community input about how best to meet their needs, but is not yet evaluating its progress towards goals.**

Although the Library has surveyed patrons to learn about how it could better serve them, it does not have a practice of regularly evaluating whether it is making progress towards improvement goals over time. A recent organizational assessment by Moss Adams, a consulting firm, found that the Library lacks a consistent method to evaluate programs and ensure they adequately address community needs and priorities. As a result, the Library may miss opportunities to better meet community needs. Program evaluations would also provide opportunities for the Library to communicate to the public about how it has met or is meeting various recommendations

from community surveys. Program evaluation is especially important to determine if new service models introduced in response to the COVID-19 pandemic effectively meet community needs.

The Library has taken some steps to identify community needs and progress towards goals. The Library recently began using community surveys to identify how it could better serve community members. As an example, the Library used information from a 2019 survey of 4,000 respondents to shape future budgetary priorities and operational practices. Based on responses that expressed interest in expanded hours and collections at the Tool Lending Library, the Library expanded hours and will soon add culinary tools to the collection. The Library also gathers community input through public comment at Board meetings and other community meetings, one-on-one interactions with librarians, and an emailed newsletter. To continue building on the benefit of the community surveys, it is important that the Library continue this practice of regular community surveys and meetings. This is especially important if the way the community accesses Library services and spaces changes as a result of COVID-19.

To ensure the Library's services align with strategic goals, Moss Adams recommended that the Library adopt a formal program evaluation process. Once the Library develops a strategic plan, Library officials can also incorporate goals from the plan into evaluation. We concur with Moss Adams' assessment and recommendation as specified below.

*“To support continuous program improvement, the Library should adopt a formal program evaluation process that combines anecdotal and qualitative evidence with data and other quantitative evidence. Program evaluation activities should integrate into the regular workflow for all programs and services by developing an evaluation framework that includes:*

- **Program Logic Models:** *The Library is currently training staff on the use of logic models. They should continue this work to develop program logic models to clarify goals, resources, activities, outputs, and outcomes.*
- **Evaluation Measures:** *Identify and collect relevant output and outcome indicators for each program.*
- **Related Processes:** *Develop processes to support the evaluative work, including how data will be collected, managed, analyzed, shared, and acted upon.*

- **Success Standards:** *Determine which standards should be adopted to assess program success. For example, does a program need to serve a minimum number of patrons? Does the program need to have a specific cost to participant ratio? Does the program need to actively reduce inequity? A weighted assessment framework that takes multiple dimensions into account.”*

We recognize that there is a need to find a balance between implementing new programs and service delivery models and ensuring that they are effective, equitable, and accessible. The evaluation framework Moss Adams proposed is helpful to consider as a model for a program evaluation process.

## Recommendations

- 3.1 To continue to develop the Library’s work on strategic priorities, we recommend Library management and the Board support the new director in developing a strategic plan.
- 3.2 To assess whether the Library’s programs and activities meet community needs over time and align with its strategic plan, we recommend the Library develop and implement a program evaluation process. We recommend that the Library make a reasonable effort to follow the guidance in the Moss Adams report to the extent feasible: program logic models, evaluation measures, related processes, and success standards. To the extent that existing program delivery models change in response to COVID-19, evaluate whether those changes result in programs that are equitable, accessible, and meet program goals.

## Appendix I: Methodology and Statement of Compliance

### Methodology

We audited Berkeley Public Library's non-personnel expenditures of the Library Tax Fund during fiscal year 2018 (July 1, 2017 – June 30, 2018). We focused on non-personnel expenditures as a result of a risk assessment that determined the highest risk was among those expenditures. Specifically, we examined accounts payable and contracts. We assessed the appropriateness of the transactions we examined by comparing them to the Berkeley Municipal Code defining the use of Library Tax revenue. We also assessed whether the purchasing process followed the Library's purchasing manual and applicable city Administrative Regulations. We communicated with Library management and staff to gain an understanding of the department's practices for processing, approving, and monitoring its expenditures of the Library Tax Fund. We performed a risk assessment of internal controls to identify potential weaknesses, including fraud risks, in relation to Library Tax, non-personnel expenditures. We reviewed:

- City of Berkeley Fiscal Year 2018 Adopted Biennial Budget
- Library Relief Act (Measure D) ballot language and results
- Berkeley Municipal Code Chapter 3.04 (section 3.04.060) and 7.56 (section 7.56.010)
- Berkeley Public Library's Purchasing Policy and Purchasing Manual Administrative Regulation 3.4 and Board of Library Trustees resolution R07-74
- Library Tax Fund expenditure data (non-personnel)
- Scope and services of 23 City expenditure contracts using the Library Tax in fiscal year 2018. We also included one contract from 2019 for a service that was relevant to the scope of our audit.
- Interviews with Library management and staff, as well as Board of Library Trustees
- Board of Library Trustees meeting agendas for fiscal year 2018
- Changes in budget projections and operations due to the COVID-19 pandemic

We reviewed the Library's collection management plan for the purpose of evaluating whether the Library is transparent about the plan as it relates to the Library's use of the Library Tax Fund to purchase books and media. We did not evaluate the specific processes and procedures associated with the Library's collection management plan or the extent to which librarians followed the plan.

### Data Population and Sample Selection

We extracted expenditure data from the City's financial system, FUNDS. We separated the data into the main spending categories that include high risk expenditure types as well as expenditures related to the Library's core services: contracts, library materials, professional services, technology devices, tools for the Tool Lending Library, programming, and staff travel. We used a sample size calculator and input a confidence level of 95 percent and a confidence interval of 10 percent to determine a sample size for each subset. Then, we

judgmentally distributed the sample between the spending categories based on our perception of risk level and the most material impact related to our audit objective. We used the Excel random function to randomly select the transactions to review. In all, we examined 164 transactions totaling over \$881,000.

### Data Reliability

We assessed the reliability of FUNDS data by tracing to source documents; interviewing Library personnel; and gaining an understanding of Finance's regular FUNDS access review process. We determined that the data were sufficiently reliable for the purposes of this report.

### Statement of Compliance

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, 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.

## Appendix II: Recommendations and Management Response

We provided a draft of this report to Library management for review and comment. Library management provided comments, which are reproduced in full below.

### Library management views on audit findings, conclusions, and recommendations:

It is with great interest that the Berkeley Public Library (BPL) receives and responds to the audit of the Library Tax Fund *Library Uses Tax Funds by the Book, But More Internal Controls Needed*. The Berkeley Public Library is an important and treasured local resource, is amongst the busiest libraries in the state of California, and has received accolades for its innovative policies and services. In 2020, Library Journal identified BPL as a Four Star Library due to its ability to provide access to Library resources widely and effectively. The Library welcomes recommendations from this audit that are intended to reinforce proper use of tax funds, develop improved internal controls, and ensure effective evaluation of services to sustain success and identify new opportunities for improved services and service models.

The report's findings reinforce and promote practices intended to support important Library initiatives and ensure their ongoing success through transparency and clarity. The findings focus upon a few sets of practices related to planning, budgeting, communications, public programming, and collection management. In each case, the Library can and will integrate the audit's recommendations into its practices. In many cases, those recommendations perfectly complement the Library's intended practices for the next year, including the need to institutionalize evaluative practices for public programming, develop a comprehensive strategic plan, communicate about its changing collection practices--including for those of the Tool Lending Library which will soon offer a culinary tools lending service, and continue to develop a responsive and effective social media plan.

2020 has been a difficult year for the country and the local community due to the Covid-19 pandemic, which has forced the Library to close its facilities to the public and develop new methods for service delivery. This spring, the Library nimbly transformed practices related to public communications and collections. This was made possible, in large part, due to a clear set of documented organizational priorities, as well as social media & collections plans that, although not explicitly written for pandemic conditions, defined guiding principles based upon community needs.

Although the Library has developed a rudimentary programming plan to guide evaluation and design of programs, developing a comprehensive plan will facilitate effective, community-driven programming practices both during and after the Covid-19 pandemic. In fact, doing so had been identified in the Library's 2020 priorities, and the audit reinforces the likely value of completing this work.

The Library is prepared to perform a strategic planning process and develop a strategic plan that defines operational goals and objectives. With a new Director coming aboard this fall and who can shepherd that process, the Library finds itself in a good position to take on this work.

Lastly, the recommendations related to developing a budget reserve policy and ensuring the board has sufficient background and knowledge to perform effective fiscal oversight are well timed for the development of the FY 2022/2023 budget which will take place this coming winter and spring.

## 2.1

To guide the Board of Library Trustees in authorizing use of the reserve, we recommend the Library develop and implement a reserve policy. We recommend that the policy:

- Define situations in which use of the reserve may be considered;
- Include a plan for how the reserve will be funded or replenished if used;
- Specify the exact purpose and timeline for any use of reserve funds, with some flexibility as needed; and
- Specify the allowable amount to withdraw per incident and/or fiscal year.

**Management Response:** Concur

**Proposed Implementation Plan:** Library Administration will develop and present a Reserve Policy to Board in 2021 (February/March/April) concurrent with the FY 2022/FY 2023 Biennial Budget process with the goal of adoption at time of Biennial Budget adoption.

**Proposed Implementation Date:** May/June, 2021, to run concurrent with FY 2022/FY 2023 Biennial Budget adoption.

## 2.2

To strengthen controls at the Tool Lending Library, we recommend the Library develop and implement purchasing procedures that require staff to:

- Document that all purchased items are entered into the catalog;
- Document that all tools are removed from the catalog at the end of their useful life and are properly disposed of; and
- Implement and document oversight of the new procedures.

**Management Response:** Concur

**Proposed Implementation Plan:** The Library's current practices with the purchase, cataloging, and deaccessioning of tools reflects the above recommendations. The Library is updating its Collection Management Plan and will update the Tool Lending Library element of the plan to document the Library's practices which are reflective of the recommendations.

**Proposed Implementation Date:** December 1, 2020



**2.3** To strengthen Board governance over the budget and ensure that they have a shared baseline of budget knowledge, we recommend Library management provide a public budget overview session that is separate from regular Board meetings or refer the Board to budget training opportunities hosted by another agency.

**Management Response:** Concur

**Proposed Implementation Plan:** Library will identify and refer local agency training(s) on the topic of public agency budgeting and/or those that are presented by the City of Berkeley. Additionally, the Library Director and the Library's Fiscal Services Manager, will host one-on-one budget training overview sessions with each Trustee.

**Proposed Implementation Date:** February to April, 2021

**2.4** To be transparent with the public about collection management using the Library Tax Fund, we recommend the Library continue to proactively communicate about how the collection is growing and changing to meet community needs, and formally incorporate collection management into any outreach and communications policies and/or plans.

**Management Response:** Concur

**Proposed Implementation Plan:** As indicated in the community response to the Library's 2019 community survey, access to the Library's collections is the primary reason patrons use the Library. The Library has devoted significant resources to improve patrons' experiences of the Library and to improve access to the collections via an equity-based approach with the removal of daily overdue fines and the liberalization of rules for obtaining library cards.

Communicating about the collections has been an important element of the Library's marketing and social media practices, including via monthly newsletters and social media posts that highlight newly arrived materials, and, especially since Covid-19, the Library's e-collections, such as Kanopy, Hoopla, Overdrive, and Enki.

To better institutionalize these practices, the Library's Social Media Plan will be updated to emphasize the need to consistently clarify and accentuate the Library's collection management practices and the value of an ever-changing and responsive collection. Secondly, the Collection Management Plan will be updated to include an area on the marketing of and communications about the Library's collections, focusing on the need to ensure adequate communications about new practices, resources, and collection management methods.

**Proposed Implementation Date:** December 1, 2020

### 3.1 To continue to develop the Library's work on strategic priorities, we recommend Library management and the Board support the new director in developing a strategic plan.

**Management Response:** Concur

**Proposed Implementation Plan:** To prepare for the launch of a new strategic plan, in early 2020 the Board of Library Trustees and Library staff underwent an inclusive mission and vision clarification process to develop a new mission and vision statement that was adopted by the Board by BOLT Resolution No.: R20-040 on July 1, 2020. To enhance the value and efficacy of a new strategic plan, the Library and Board will launch a comprehensive strategic planning initiative at the discretion of a new permanent Director.

Due to Covid-19 and the continuing emergency conditions confronting the City of Berkeley, the Library is faced with several challenges for developing a *longer* term plan; services in response to Covid-19 have required a radically different approach than under standard service conditions. It is unknown how long these conditions will last.

Lastly, strategic planning will likely require a solicitation of a Request for Proposals for an outside facilitator of the community input process, thus adding to the likely timeline.

**Proposed Implementation Date:** February, 2021

### 3.2 To assess whether the Library's programs and activities meet community needs over time and align with its strategic plan, we recommend the Library develop and implement a program evaluation process. We recommend that the Library make a reasonable effort to follow the guidance in the Moss Adams report to the extent feasible: program logic models, evaluation measures, related processes, and success standards. To the extent that existing program delivery models change in response to COVID-19, evaluate whether those changes result in programs that are equitable, accessible, and meet program goals.

**Management Response:** Concur

**Proposed Implementation Plan:** This recommendation aligns with the Library's operational goals and practices. The Library is developing a formal public programming plan to incorporate and institutionalize success standards, logic models, and the use of community surveys to ensure that public programming offerings are aligned around community needs. Due to Covid-19 and social distancing requirements, many new factors need to be incorporated into the plan.

Since FY 2019, the Library has devoted significant resources to support the effective evaluation of public programming with a focus upon designing programming around community and individual outcomes sought, including staff's use of logic models and evaluative surveys being conducted with a large percentage of programs. This has resulted in programming offerings that focus upon such community interests as developing DIY,

English language, and STEM skills. The Plan will document these current practices and will institutionalize evaluative practices and the setting of annual programming goals into the future.

**Proposed Implementation Date:** January 1, 2021

**Mission Statement**

Promoting transparency and accountability in Berkeley government.

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