



## **Budget and Financial Policy**

### **I. Mission Statement**

The Fontana Regional Library system provides the public of Jackson, Macon, and Swain counties with excellent service and convenient access to resources for their educational, informational, and recreational needs.

### **II. Purpose of Budget and Financial Policy**

The financial integrity of the Fontana Regional Library (FRL) system is of vital importance. A written, adopted Budget and Financial Policy provides guidance to the Board of Trustees and administration in the financial management of the Library, creates a framework for decision making, facilitates discussion of financial matters, engenders public confidence, and provides continuity over time as Board and staff changes occur.

This policy is designed to ensure FRL's stable financial position, link long-term financial planning with short-term daily operations, comply with federal, state, and local legal and reporting requirements, and assist in sound conservative financial decision making, in accordance with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) Statements, The North Carolina Local Government Budget and Fiscal Control Act (G.S. 159), and Title 7 of the North Carolina Administrative Code.

### **III. Financial Accountability**

#### **Board of Trustees**

The Board of Trustees of the Fontana Regional Library shall adopt an annual budget for the regional library in line with the needs of each member library and of FRL as a whole.

#### **Regional Director**

The Regional Director is responsible for all expenditures which must be made in accordance with the budget and amendments to the budget adopted by the Board of Trustees.

#### **Finance Officer**

All finances of FRL will be handled by the regional library's Finance Officer under the same provisions as units of local government (G.S. 159, Article 3).

#### **Delegations of Responsibility**

Each County Librarian has programmatic and administrative responsibility for the member libraries in their county. County Librarians report to the Regional Director. The Finance Officer is responsible for oversight of the business practices and financial systems of FRL. Each County Librarian has responsibility for assuring that business practices and financial systems are in compliance with policies and procedures of the regional library. As part of the oversight responsibility, each County Librarian may delegate responsibility and authority for the financial management of library resources to Branch Librarians and supervisors at the member libraries in their county.

The County Librarian is responsible for managing the financial resources of the member libraries in their county, and for developing an appropriate structure for handling the library's financial resources. This may involve delegating a variety of tasks to employees within the library. Each member library is responsible for managing its own financial resources.

Each County Librarian shall be responsible for developing an accountability structure that adheres to the following principles:

1. Accountability cannot be delegated.
2. A person cannot delegate greater responsibility than he or she has.
3. Tasks shall only be delegated to people who are qualified to perform them.

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A qualified person must:

- a. be actively involved in the tasks being performed;
  - b. have the appropriate knowledge and technical skills to perform those tasks, including knowledge of relevant regulations and policies; and
  - c. have the authority to carry out the tasks.
4. A person delegating tasks is responsible for ensuring that those tasks are being properly performed.
  5. A person delegating tasks must keep a complete, up-to-date record of the delegations, as well as an audit trail of modifications to them and ensure that delegations are appropriately decided and communicated, documented, and periodically reviewed for accuracy, completeness and effectiveness.

### IV. Operating Budget

Budgetary emphasis will focus on providing high quality library services, recognizing the fundamental importance to the public of convenient access to resources for their educational, informational, and recreational needs. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital assets and equipment. Strong customer service and productivity improvements, with a focus on cost savings, remain important budgetary goals.

#### Budget Term

The fiscal year of the Library is July 1<sup>st</sup> through June 30<sup>th</sup> of the following year. The fiscal year is also the accounting and budget year.

#### Basis of Budgeting and Accounting

The Library has one General Fund which is a Governmental Fund. Therefore, consistent with Generally Accepted Accounting Principles the budget is presented on the modified accrual basis. Under the modified accrual basis of accounting revenues are recognized when they are measurable and available. Expenditures are recognized when the liability is incurred, if measurable, except for principle and interest on long-term debt, which are recorded when due, and compensated absences which are recorded when payable. The Library uses encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the appropriation.

#### Operating Budget Practices

Each County Librarian, prior to April 20<sup>th</sup>, will prepare and submit the annual budget for the member libraries in their county for review and approval by the Regional Director. The Regional Director will prepare the budget for the headquarters office and all region-wide projects and activities, or may delegate this responsibility to the Finance Officer. The Finance Officer will prepare and submit the combined budget for all member libraries and the headquarters office for approval by the FRL Board of Trustees. The May meeting of the Board shall serve as the public hearing for the budget, and appropriate public notice shall be provided at least two weeks prior to the meeting. At the meeting the public may comment on the proposed budget. Following the public comment the Board will adopt the final budget at the May meeting or at a special meeting to be held not later than June 30<sup>th</sup>. During the year, it is the responsibility of the County Librarians and Regional Director to administer the budget. The legal control, which the budget establishes over spending, is set up under Generally Accepted Accounting Principles, and in accordance with G.S. 159.

#### Changes to Adopted Budget

The expenditures of Library operating funds cannot exceed the budget appropriations of the respective fund. However, adopted budgets may be increased, decreased, or amounts transferred, by approval of the FRL Board of Trustees, upon recommendation of the Finance Officer and Regional Director.

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### Line Item Transfers in Adopted Budget

The Fontana Regional Library Board of Trustees has authorized library staff to make line item transfers without explicit Board approval. These transfers may be requested by the responsible County Librarian or Regional Director and approved by the Finance Officer. Line Item Transfers:

- Shall be for collections expenses and operating expenses only;
- Cannot result in an increase or decrease in the overall revenue of any fund within the Region; and
- May not exceed \$2000 per line.

Changes to personnel or changes the increase or decrease the overall budget require Board approval.

### V. Revenues

A diversified and stable revenue system will be maintained to shelter FRL from short-run fluctuations in any single revenue source. Revenues will be conservatively estimated. Revenue management includes within its focus, an ongoing process for reviewing and analyzing each revenue source to ensure that proceeds from each source are at an optimum level. Every attempt will be made to project revenues within 5% of final actual results, and the projections will be based on historical trends, growth patterns, and the economy. Grant funding may be used for a variety of purposes including:

1. Current Library operations.
2. New operating programs which either can be sustained over time or have a limited horizon.
3. Region-wide projects identified in the Long Range Plan and Technology Plan.
4. Opportunities to address the mission and goals of FRL.

Staff will pursue opportunities for grant funding. Application may be made after a grant is evaluated for consistency with FRL's goals and compatibility with Library programs and objectives. All grants pursued by the staff of FRL will be presented to the Regional Director for consideration and approval before application is made. Any awarded funds will be accepted only after Governing Board review and approval. In general, non-recurring funding will be used only for non-recurring expenditures.

### VI. Expenditures

FRL's goal is to maintain annual expenditure increases at a conservative growth rate and limit expenditures to anticipated revenues. Budgeted funds will only be spent for categorical purposes for which they were intended. High priority is given to expenditures that will reduce future operating costs, such as increased utilization of technology and equipment and proven business methods. An appropriate balance will be maintained between budget dollars provided for direct public services and dollars provided to assure good management and legal compliance. Before FRL undertakes any agreements that would create fixed ongoing expenses, the cost implications of such agreements will be estimated for current and future years. All notes, contracts, accounts payable, and other monetary liabilities will be paid when due.

#### Maintenance and Replacement

FRL inventories and assesses the condition of its equipment and vehicles annually. The budget process includes a multi-year projection of vehicle replacement requirements. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital assets and equipment.

#### Purchases

All expenditures must comply with applicable regulatory and legal requirements and library policy.

- a. Federal and state restrictions must be followed.
- b. All purchases are subject to the preaudit requirement for G.S. 159:

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- a. there is an appropriate budget ordinance or project/grant ordinance appropriation authorizing the obligation;
  - b. sufficient monies remain within the appropriation to cover the amount that is expected to be paid out during the current fiscal year, or the life of the grant;
  - c. record the amount of the transaction in the encumbrance system.
- c. When goods and services are purchased for FRL, the following requirements apply:
- a. The Board of Trustees, Regional Director, County Librarians, Branch Librarians, or Finance Officer must execute construction projects, the services of independent consultants, and legal services, in accordance with federal, state, and local requirements.
  - b. Any person who makes unauthorized purchases shall be responsible for the payment of all charges incurred.
  - c. Goods and services for individuals or for non-library activities shall not be made using Library credit, except on specified staff accounts or with prior permission of the Regional Director. Purchased items of a personal nature must be paid for by the individual at the time the invoice comes due.
  - d. Unnecessary or redundant purchases must be avoided.

## VII. Electronic Transactions

FRL recognizes the use of various electronic transactions as a faster, easier, and more efficient substitute for paper transactions. Electronic banking uses computer and electronic technology to streamline the processing and recording of receipts and disbursements, while reducing the cost of processing these transactions. Purchases can be made using credit, debit, and fuel cards. Receipts, disbursements, and transfers can be processed via electronic funds transfer (EFT) services. Payroll direct deposit is more secure, convenient, and immediate than paper checks. Federal and state payroll taxes must be remitted electronically.

For the purposes of this policy, electronic transactions include:

- Charge, credit, debit, fuel, and procurement cards;
- direct deposits; and
- EFT services such as Automated Clearing House (ACH) and wire transfers.

Adequate internal controls, such as written policies and procedures, authorizations, segregation of duties, and monitoring of electronic transactions, are required for electronic transactions, just as for paper transactions.

### Electronic Obligations

Purchases of goods and services made using electronic transactions are subject to the same rules and procedures as other purchases. All expenditures must comply with applicable regulatory and legal requirements and library policy.

1. Federal, state, and local restrictions must be followed.
2. The Finance Officer is responsible for the establishment of charge, credit, debit, fuel, and procurement card agreements and the issuance and distribution of individual cards.
3. Use of company cards requires the prior authorization of the Branch or County Librarian, Regional Director, or Finance Officer.
4. All purchases are subject to the preaudit requirements of G.S. 159:
  - a. there is an appropriate budget ordinance or project/grant ordinance appropriation authorizing the obligation;
  - b. sufficient monies remain within the appropriation to cover the amount that is expected to be paid out during the current fiscal year, or the life of the grant;
  - c. record the amount of the transaction in the encumbrance system.

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### Electronic Payments

The method to initiate a direct deposit or EFT is subject to the same policies, procedures, and controls that govern disbursement by any other payment mechanism.

1. The Finance Officer shall be responsible for the establishment of any EFT or ACH agreements.
2. Only the Finance Officer or designated back-up may initiate a direct deposit or other EFT.
2. Ensure that the amount claimed is payable;
  - a. there is an appropriate budget ordinance or project/grant ordinance appropriation authorizing the expenditure;
  - b. sufficient monies remain within the appropriation to cover the amount that is due to be paid out during the current fiscal year or life of the grant;
  - c. there is sufficient cash to cover the payment;
  - d. record the transaction in the general ledger system.

### VIII. Fund Balance

Fund Balance is defined as the excess of assets over liabilities, which is an unreserved, undesignated resource that remains part of the General Government fund. The Library desires to maintain a prudent level of financial resources to guard against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The Fund Balance has been accumulated to meet this purpose, to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The long-term target is to maintain a rolling beginning fund balance equal to 25% of operating revenues. Any uncommitted operating surpluses (revenues that exceed expenditures) that occur at year-end will remain in the Fund Balance, rather than be used as a supplemental source of revenue required to balance the budget each year.

The decision to retain a fund balance of 25% of operating revenues stems from the following considerations:

1. This amount provides adequate funding to cover approximately three months of operating expenses.
2. It provides the liquidity necessary to accommodate the Library's uneven cash flow.
3. It provides the liquidity to respond to contingent liabilities.

Fund balance may be accessed under the following conditions:

1. A maximum of 25% of the General Government Fund Balance (6.25% of operating revenues) may be used to fund unforeseen expenditure requirements or unanticipated revenue fluctuations;
2. An annually designated amount for "Contingency" to be used only in the event of unexpected or unforeseen emergencies;
3. To meet the obligations of the self-insured Unemployment Compensation program;
4. To provide matching funds for grants;
5. To fund region-wide initiatives; and
6. At the beginning of the fiscal year member libraries or the headquarters office may request up the amount of their prior year operating surplus to be carried over into the current budget for
  - a. purchase obligations (encumbrances) from the prior year,
  - b. on-going multiyear projects and grants, and
  - c. specific one-time projects or expenditures.
  - d. This surplus may not be used to fund recurring payroll obligations.

Any appropriation or use of the Fund Balance will require prior approval of the Regional Director and Finance Officer, and action of the FRL Board of Trustees.

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### **IX. Cash Management**

FRL strives to maximize the use of public monies in the best interest of the public.

In accordance with Title 7 of the North Carolina Administrative Code, all funds will be paid into a central account. Funds from units of local government will be paid either monthly or quarterly. Local money will be used only for local services except when region-wide service costs have budget approval by the local government. State funds may only be used for region-wide services.

#### **Cash Receipts**

Cash receipts will be collected as expediently as reasonably possible to provide secure handling of incoming cash and to move these monies into interest earning accounts and investments.

All incoming funds should be deposited daily as required by law. However, member libraries may accumulate cash receipts of up to \$200 prior to deposit. Deposits will be made in such a manner as to receive credit for that day's interest.

#### **Cash Disbursements**

FRL's objective is to retain monies for investment for the longest appropriate period of time.

Disbursements will be made shortly in advance of or on the agreed-upon contractual date of payment unless earlier payment provides a greater economic benefit to FRL.

For all Library checks two (2) signatures will be required. Normally such checks will be signed by the Finance Officer and the Regional Director. If either of these persons is unavailable a designated Officer of the Governing Board may sign.

### **X. Investments**

It is the policy of FRL to preserve capital and invest public funds in a manner which provides the highest investment return with the maximum security while meeting the daily cash flow demands of The Library and conforming to all state and local statutes governing the investment of public funds. The primary objectives, in priority order, of the Library's investment activities will be: safety, liquidity, and yield.

The standard of prudence to be used by staff will be the "prudent person" rule. The "prudent person" concept discourages speculative transactions. It attaches primary significance to the preservation of capital and secondary importance to the generation of income and capital gains. Authorized staff, if acting in accordance with written procedures and state statutes and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that these deviations are reported immediately and action is taken to control adverse developments.

FRL is empowered by North Carolina G.S. 159-30(c) to invest in the following types of securities:

1. Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
2. Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service.

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3. Obligations of the State of North Carolina
4. Bonds and notes of any North Carolina local government or public authority.
5. Fully collateralized certificates of deposit issued by any bank or savings and loan organized under the laws of the State of North Carolina
6. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation.
7. Bankers acceptances of a commercial bank or its holding company provided that the bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.
8. Participating shares in a mutual fund for local government investment, provided that the investments of the fund are limited to those qualifying for investment under this subsection and that said fund is certified by the Local Government Commission.
9. Evidences of ownership of, or fractional undivided interest in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capacity of custodian.
10. Repurchase agreements with respect to either obligations of the United States or obligations the principle of and the interest on which are guaranteed by the United States if entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, which is a dealer recognized as a primary dealer by a Federal Reserve Bank, or any commercial bank, trust company or national banking association, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof.

## **XI. Debt Management**

Long-term borrowing will not be used to finance current operations or normal maintenance. FRL will strive to maintain a high reliance on pay-as-you-go financing for its capital items. All debt issued, including by lease-purchase methods, will be repaid within a period not to exceed the expected useful lives of the assets financed by the debt.

## **XII. Asset Management**

Each library or department is responsible and accountable for the stewardship of items purchased and/or utilized by it. This includes, but is not limited to:

1. Utilizing assets in the manner for which they are intended and with care and consideration.
2. Maintaining reasonable procedures and safeguards to prevent loss, theft, or misuse of the asset.
3. Utilizing assets primarily in support of Library business. Use of Library assets in support of a personal business or commercial enterprise is expressly forbidden.
4. Reporting lost, stolen, missing, malfunctioning assets immediately upon discovering the loss or malfunction to the County or Branch Librarian and/or Regional Director.
5. Receiving appropriate approvals before removing assets from the Library.

Computer and technology related equipment must be purchased through the Information Technology Department to ensure consistency and compatibility with FRL's technology network.

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Assets retired from service shall be disposed of in the most efficient and cost effective manner possible. Assets shall be disposed of in a manner that is environmentally responsible.

### Capital assets

All equipment, furniture, vehicles, or other assets acquired by FRL or its member libraries with a purchase price of \$5,000 or more per unit will be subject to capitalization. Purchase of capital assets must be approved by the County Librarian and/or the Regional Director.

The Finance Officer is responsible for the overall management of the capital asset system. Each County Librarian, Branch Librarian, or Department Manager is assigned responsibility for that library or department's assets and for working with the Finance Officer to ensure control of assets and compliance with the library's goals. A *Fixed Assets Inventory Sheet for New Acquisitions* must be submitted to the Finance Officer within thirty (30) days of purchase for any asset costing \$5,000 or more. An inventory number will be assigned to each piece of equipment by the Finance Officer.

Assets are depreciated on a straight-line basis using the General Depreciation System property classifications as detailed in IRS Publication 946 – How To Depreciate Property.

Under these guidelines the useful lives of library assets are:

- |                             |          |
|-----------------------------|----------|
| • Vehicles                  | 5 years  |
| • Office equipment          | 5 years  |
| • Computers and peripherals | 5 years  |
| • Office furniture          | 7 years  |
| • Library collection        | 7 years  |
| • Building improvements     | 15 years |

Capital assets that continue in service, even after fully depreciated, shall remain on the financial records and shall be removed only upon disposal. Capital assets shall be considered impaired when events or changes in circumstances indicate that service utility has declined significantly and unexpectedly as defined by Generally Accepted Accounting Principles (GAAP). Such events or changes in circumstances may include flood, fire, earthquake, technological obsolescence, or changes in environmental standards.

Disposal of capital assets shall be recommended by the County Librarian, Branch Librarian, or Department Manager, and must be approved by the Regional Director and the FRL Board of Trustees. The Finance Officer shall be notified of the specific asset being disposed, the date of the disposal, and any proceeds resulting from any sale related to the transaction. Proceeds shall convey to the owning library. When disposed assets were purchased through regional grants or programs, such as LSTA, proceeds shall convey to the headquarters office.

### Non-capital assets

Purchases of goods or services costing less than \$5,000 must be approved by County or Branch Librarians or Department Managers based on their discretion.

Disposal of non-capital assets (items costing less than \$5,000) must be approved by County or Branch Librarians or Department Managers responsible for the asset.

## XIII. Financial Management

FRL places continued emphasis on maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable, but not absolute, assurances regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, as well as the maintenance of accountability of assets.



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An independent audit of FRL is performed annually.

### **Managing Financial Resources**

Each County Librarian shall adopt the following practices to ensure sound financial management:

1. Actual financial results must be compared to the budget on a regular basis to detect changes in circumstances or the business environment, identify and/or correct transaction errors, and measure financial performance. When actual financial results vary significantly from the budget, the County Librarian must determine the cause, evaluate the activity, and take corrective action.
2. Member libraries must operate within their budget. When expenditures exceed budget, justification for such excess must be provided to the Regional Director. The County Librarian must develop a formal plan to eliminate deficits generated.

### **Monitoring and Evaluating Financial Data**

Each County Librarian must establish monitoring procedures to provide assurance that financial transactions are appropriate and are accurately recorded. Procedures for monitoring and evaluating financial data must include:

1. Utilizing monthly financial reports that are clear and concise, provide budget vs. actual comparisons, and identify trends and special areas of concern.
2. Developing a method for recording revenue and expenses. All transactions must include:
  - a. Amount;
  - b. Account classification;
  - c. Description;
  - d. Date.
3. Developing a method to review financial transactions to ensure transactions are appropriately approved, accurately recorded, and supported by proper documentation.
4. Developing a method for taking corrective action must include complete documentation of significant deviations and the corrective action.

### **Safeguarding Library Assets**

Assets must be safeguarded from loss or unauthorized use. Adequate safeguards include the following:

1. All cash, checks, or cash equivalents and all petty cash funds, are processed and managed in compliance with the requirements of G.S. 159.
2. All library assets are properly described and accounted for in the Library inventory.
3. Actual physical assets are compared to assets recorded in the Library inventory at least once per year. Discrepancies are resolved in a timely manner, and adjustments to asset records must be documented and approved.
4. Access to any forms or on-line systems that can be used to alter financial balances must be restricted to employees who require such access to perform their Library duties.

## **XIV. Compliance**

Every employee who conducts transactions that affect Library funds must comply with all applicable laws, regulations, and special restrictions.

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### **Financial Reporting**

1. FRL will conduct transactions in compliance with applicable financial reporting requirements, including Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) Statements, The North Carolina Local Government Budget and Fiscal Control Act (G.S. 159), and Title 7 of the North Carolina Administrative Code. The basic requirements of these standards include the following:
  - a. Sources and uses of funds must be segregated by the type of activity they support in accordance with any restrictions imposed on their use.
  - b. Revenues are reported when earned, and expenditures are reported when goods or services are received. Holding an invoice does not and must not prevent the expense from being incurred.
2. Accounting principles must be applied consistently, both within fiscal years and between fiscal years.
3. Reports to sponsoring entities will be made according to the specific reporting requirements. In general, most sponsoring entities require adherence to GAAP. Additionally, federal agencies and entities which serve as conduits for federal funds require adherence to Office of Management and Budget Circulars (OMB) and/or Federal Acquisition Regulations (FAR).
4. FRL is a 501(c)3 Charitable Organization and must annually submit a Form 990 Tax Return. Prior to filing, this return shall be reviewed and accepted by the FRL Board of Trustees.

### **Reporting Fraudulent or Illegal Acts**

Any person who becomes aware of fraudulent or illegal business transactions conducted in the name of the Library shall properly report the fraudulent or illegal act. This includes:

1. Any person who suspects that fraud or illegal activities are taking place in his or her department or member library must report that suspicion immediately to their immediate supervisor. If the employee believes that the supervisor is involved, or is otherwise uncomfortable reporting in this manner, he or she must immediately notify the County Librarian, Regional Director, or Finance Officer. Supervisors to whom such reports are made must review them, and if they have merit, report them to the next level of management or to the Regional Director or Finance Officer.
2. Individuals conducting business on behalf of the Library are personally responsible for the consequences of any violations they commit.
3. Individuals conducting business on behalf of the Library must do so for the benefit of the Library. Where a potential for personal gain exists, this potential conflict of interest must be reported immediately, and be carefully evaluated before any financial transactions are allowed to occur.

### **Response and Resolution of External Audit Findings from Regulatory Agencies**

Responding to external audit findings from regulatory agencies includes ensuring the following:

1. The Regional Director is notified prior to commencement of any audit or review by an external regulatory agency; and
2. A full investigation of the facts is conducted to ensure accuracy of any findings.
  - a. If a finding is in error, full documentation must be sent immediately to the Finance Officer.
  - b. If a finding is valid, corrective action must be taken immediately to correct the deficiency and ensure the situation does not recur.