



East Greenbush Community Library

Internal Controls Over Cash Receipts

Report of Examination

Period Covered:

January 1, 2012 — March 31, 2013

2013M-223



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

Dear Library Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Trustee governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the East Greenbush Community Library, entitled Internal Controls Over Cash Receipts. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The East Greenbush Community Library (Library), located in the Town of East Greenbush (Town) in Rensselaer County, is a special district public library¹ which received its charter from the State Board of Regents in 1988. The Library is governed by a Board of Trustees (Board) comprising seven elected members. The Board is responsible for the general oversight of the Library's financial affairs and safeguarding Library resources. The Library Director is appointed by the Board and responsible for the Library's day-to-day administration.

The Library's budgeted appropriations for the 2013 fiscal year were approximately \$1.8 million, which were funded primarily with real property taxes, service contracts, and fees collected from library patrons. The Library's annual budget is subject to District voter approval. Each year the Board files the Library's budget detailing the estimated costs of library services and the amount to be raised by real property taxes with the East Greenbush Town Clerk. The Town is responsible for collecting and remitting real property taxes to the Library.

Objective

The objective of our audit was to assess the Library's internal controls over cash receipts. Our audit addressed the following related question:

- Are internal controls over cash receipts appropriately designed and operating effectively to safeguard the Library's assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Library assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, control environment, budgeting, cash receipts and disbursements, cash management, purchasing, claims processing, computerized accounting records, payroll and personal services, real property taxes, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the cash receipts area, and, therefore, we examined internal controls over cash receipts for the period January 1, 2012, through March 31, 2013.

¹ The Library is a special legislative unit that was established by special State legislation to provide library services to the Town of East Greenbush.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of
Local Officials**

The results of our audit have been discussed with Library officials and their comments, which appear in Appendix A, have been considered in preparing this report. Library officials generally agreed with our finding.

Cash Receipts

The Board is responsible for establishing adequate internal controls to properly safeguard the Library's cash assets. Effective internal controls over cash receipts ensures that all money the Library receives is properly recorded, safeguarded, deposited, and accounted for. Such controls should provide for adequate segregation of duties to ensure that no individual controls all phases of a transaction. Safeguarding measures include procedures to ensure individual accountability over cash receipts and storing cash received in a secure location prior to depositing the funds.

We commend the Board for establishing adequate internal controls over the cash receipt process to ensure that all cash collections are properly recorded and accurately accounted for. Those controls include policies and procedures that provided guidance to Library staff involved in the cash collection process for operating cash registers, performing daily cash counts, preparing deposit slips, and safeguarding cash. Board procedures also adequately segregated duties within the cash collection process to ensure that no individual controls all phases of a transaction. Specifically the duties of receiving, recording, maintaining custody, and depositing collections were segregated.

The Library staff collected cash from patrons for fines, fees, and miscellaneous charges totaling approximately \$86,000 during our audit period. To ensure that receipts are accurately accounted for and recorded properly, each Library staff member is assigned a unique identification code that they must enter into the cash register when collecting money (the registers record all transactions). In addition, a shift supervisor is required to collect and record the cash receipts in a cash journal twice daily. Finally, Library officials assigned deposit slip preparation and cash receipts depositing responsibilities to more than one employee to ensure adequate segregation of duties.

We observed Library staff conducting cash register operations and the daily cash counts to confirm that they followed the Board's established cash register procedures. We reviewed 64 cash register receipts totaling \$8,959² by comparing the amounts recorded on the bank deposit slips with the cash register receipts to identify any significant

² We judgmentally selected two months during the scope period, June 2012 and March 2013, and tested each cash register receipt during those months. In June 2012 there were 31 cash register receipts totaling \$4,227, and, in March 2013, there were 33 cash register receipts totaling \$4,732. See Appendix B for information on the sample selection.

cash overages or shortages. Our review disclosed no significant discrepancies. We also tested these receipts to verify that they were properly recorded and deposited in a timely manner. Except for a few minor discrepancies which we discussed with Library officials, the cash receipts we reviewed were all properly recorded and deposited in a timely manner.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.



10 Community Way
East Greenbush, New York 12061
Phone: 518-477-7476
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www.eastgreenbushlibrary.org

[REDACTED]
Division of Local Government and School Accountability
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED],

On behalf of the East Greenbush Community Library, thank you for the opportunity to respond to the draft Report of Examination covering the period of January 1, 2012 through March 31, 2013, examining internal controls over cash receipts. I would like to thank both of you for your time and thorough consideration. The Board of Trustees is pleased that your evaluation determined that we have adequate controls

The Board shares the priority of the Office of the State Comptroller in providing accountability for tax dollars spent and we appreciate your support in helping us to accomplish this goal.

We appreciate your offer to assist us in any matters in the future.

Sincerely,

Michael Poost
President, Board of Trustees

Cc: EGCL Board of Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by the Board to safeguard Library assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and control environment, budgeting, cash receipts and disbursements, cash management, purchasing, claims processing, computerized accounting records, payroll, personal services, real property taxes, and information technology.

During the initial assessment, we interviewed appropriate Library officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board policies and procedures manuals, Board meeting minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls over cash receipts for the period January 1, 2012, through March 31, 2013, for further testing. To accomplish our audit objective and obtain valid evidence, our procedures included the following:

- We interviewed Library officials to determine the procedures that were established and implemented over the cash receipts process.
- We reviewed the procedures in place to determine if cash collections were properly recorded and accurately accounted for.
- We reviewed Board minutes.
- We observed the cash receipt process to determine if Library staff followed the Board-established procedures.
- We reviewed all 64 cash register receipts issued in June 2012 and March 2013 to identify significant overages/shortages. We also compared them with the deposit slips and the bank statements to determine if they were properly recorded and deposited in a timely manner. We judgmentally selected these two months by choosing the midpoint of the 2012 calendar year and the last month in our scope period.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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