



Ethelbert B. Crawford Public Library Disbursements

Report of Examination

Period Covered:

November 1, 2011 — April 30, 2013

2013M-222



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Library Board 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 Ethelbert B. Crawford Public Library, entitled Disbursements. 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 Ethelbert B. Crawford Public Library District (Library) is located within the Monticello School District, which includes portions of the Towns of Thompson, Bethel, and Forestburgh in Sullivan County, and serves approximately 18,360 community members. The Library operates out of one main building and employs between nine and 11 full- and part-time employees depending on the time of year.

The Library is governed by a seven-member Board of Trustees (Board), each of whom is elected by the District voters. The day-to-day administration of the Library, including the management of the staff, is the responsibility of the Library Director (Director) who is appointed by the Board. The Library disbursed a total of \$788,584 for the fiscal year ending December 31, 2012. These expenditures were funded with revenues obtained from real property taxes, trust fund proceeds, and fees collected from Library patrons.

Objective

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

- Did the Board ensure that disbursements were made in an economic manner and for proper Library purposes?

Scope and Methodology

We examined the cash disbursements of the Ethelbert B. Crawford Public Library for the period November 1, 2011, to April 30, 2013.

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 and Corrective Action

The results of our audit and recommendations have been discussed with Library officials and their comments, which appear in Appendix A, have been considered in preparing this report. Library officials agreed with our recommendations and indicated they have taken corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit*

Report, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Director's office.

Disbursements

The Board is responsible for the general management and control of the Library's finances. Important aspects of this responsibility are to provide a process to routinely monitor and review the work performed by those who handle money as part of their Library duties and to ensure that no vendors are provided with direct access to any of the Library's bank accounts. Oversight becomes particularly important in operations that do not have adequate segregation of duties. If one person, such as the bookkeeper, performs nearly all financial duties, including disbursing money, maintaining the accounting records, and preparing bank reconciliations, it diminishes the ability to verify the propriety of the Library's financial transactions.

The Board did not ensure that disbursements were made in an economic manner and for authorized Library purposes. The Board did not audit any of the 767 non-payroll disbursements totaling \$1,157,071 made during our audit period. The Board also did not approve 100 of these disbursements totaling \$96,586, three of which were to Library employees. While the majority of these 100 disbursements had adequate support, thirteen did not have adequate documentation to determine if they were for legitimate Library purposes. We selected an additional nine Board-approved non-payroll check payments totaling \$2,379 made to Library employees and found that three of these payments lacked adequate documentation to show they were legitimate Library expenditures or were paid for a higher amount than what was actually owed. While none of the three instances resulted in material errors, our findings show that errors can go undetected and provided the potential for material error.

We also found that two vendors had initiated a combined total of 137 electronic fund transfers totaling \$494,817 out of the Library's general checking account during our audit period, which is not permitted by General Municipal Law (GML). Lastly, four disbursements totaling \$89,000 were for a public works contract that was not competitively bid as required by GML.¹ There is no assurance that the amount paid was the most prudent and economical use of taxpayer moneys.

Most of these deficiencies occurred because the bookkeeper performed most aspects of the cash disbursements process, including preparing

¹ GML requires all contracts for public works involving an expenditure of more than \$35,000 to be awarded by the appropriate officer, board, or agency of a political subdivision or of any district therein to the lowest responsible bidder furnishing the required security after advertisement for sealed bids in the manner provided by this section of law.

the monthly claims warrants, printing the checks, and preparing the bank reconciliations, with little oversight by the Board. In addition, the bookkeeper did not provide the claims to the Board for its review and the claims warrants provided to the Board for approval were often incomplete. For example, electronic payments, debit card transactions, and hand-written checks were often not included on the claims warrants. Further, no one verifies that all disbursements were approved by the Board and only the bookkeeper compares canceled check images to the Board-approved claims warrants.

With these incompatible duties and lack of oversight, certain transactions could occur without Board knowledge. Thus, there is an increased risk that fraudulent transactions could occur without detection. In particular, allowing a vendor to have direct access to a Library bank account removes the ability to prevent errors or irregularities from occurring. Moreover, using debit cards to make purchases increases the risk that improper purchases could be made. While the Board does contract with an independent auditor to perform an annual audit of the records, it should not rely on this audit as the sole oversight. The lack of a proper audit or approval of claims only compounds the risk that errors and/or irregularities could occur without detection.

Recommendations

1. The Board should conduct a thorough and deliberate audit of all claims prior to approving them for payment to ensure that all claims have sufficient supporting documentation.
2. The Board should ensure that that no vendor has the capability to perform or initiate electronic transfers of funds out of the Library's general checking account.
3. The Board should segregate the duties of the disbursements process. If it is not practical to segregate these duties, the Board should establish mitigating controls.
4. The bookkeeper should provide all claims to the Board for its review and ensure that all claims warrants are complete.
5. The Board should ensure that someone other than the bookkeeper verifies that all disbursements are approved by the Board and that canceled check images agree with the Board-approved claims warrants.
6. The Board should ensure that public works contracts are competitively bid when required by GML.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Ethelbert B. Crawford Public Library

393 Broadway
Monticello, N.Y. 12701

845-794-4660

Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor
Albany, N.Y. 12236

October 21, 2013

To Whom It May Concern,

This letter represents the library response and corrective action plan regarding the draft 'Report of Examination' of library disbursements covering the period November 1, 2011 – April 30, 2013. The library has taken immediate action to eliminate the weaknesses spelled out in the recommendations section of the draft 'Report of Examination'.

The library has adopted a 'Disbursements Approval Form' that will accompany the documentation for each disbursement. This form will be included with the claims warrant and detailed documentation at each trustee meeting. This form will be completed at two levels (staff and administration) within the library, be delivered to the bookkeeper for issuance of checks and then all documentation and each disbursement approval form, along with each check generated, will be reviewed by a member of the audit committee before presentation to the board at their monthly meeting. At their October, 2013 meeting the library board created an Audit Committee that will be responsible for this detailed review prior to presentation of the claims warrant for approval for payment to the full library board. If a library board meeting is cancelled, due to weather or an emergency, the claims warrant will be sent via email to the library board and the library director will await email approval from the board before payments are disbursed. That claims warrant will be brought up for discussion at the next meeting of the trustees. We believe these actions appropriately address recommendations 1, 3 & 4.

Vendor- initiated payments (in our case – [REDACTED]) have been discontinued. A check is issued to pay any and all vendors. Payroll (direct deposit) and NYS Deferred Compensation electronic funds transfers are now initiated by the library director. While payroll is prepared by an outside agency, that agency no longer initiates those electronic funds transfers. Staff no longer have debit cards; they have been destroyed. We believe these actions address recommendation 2.

The library director now opens and carefully reviews each bank statement ensuring that each disbursement agrees with the board-approved claims warrants before the statements are then reconciled by the bookkeeper. We believe this action addresses recommendation 5.

Our current library construction project and any future projects will be done in strict compliance with bidding procedures as outlined in General Municipal Law. These procedures are currently being followed on our building project that is being managed by DASNY, the Dormitory Authority of the State of New York. We believe this action addresses recommendation 6.

Respectfully submitted,

Mary Paige Lang-Clouse, Director
Ethelbert B. Crawford Public Library

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to determine if disbursements were made for proper Library purposes. To accomplish our objective and obtain valid and relevant audit evidence, we interviewed appropriate Library officials and employees, tested selected records and transactions, examined pertinent documents including meeting minutes, and performed the following procedures for the period November 1, 2011, to April 30, 2013:

- We reviewed all bank statements and canceled check images for the Library general checking account from November 1, 2011, to April 30, 2013. We traced all 767 non-payroll disbursements totaling \$1,157,071 to the Board-approved claims warrants and meeting minutes to determine if they were approved by the Board. We traced any disbursements that were not Board-approved to supporting documentation, including vouchers, invoices, and purchase receipts to determine if they were legitimate Library expenditures.
- We also reviewed all bank statements and canceled check images for the Library general checking account from November 1, 2011, to April 30, 2013, for non-payroll check payments, electronic fund transfers, and debit card transactions, including ATM withdrawals, for payments to utilities, cable, Internet, phone, garbage, fuel, library employees, and any other atypical vendors. Our testing included a combined sample of 32 debit card transactions and electronic fund transfers totaling \$9,740 and 40 check payments totaling \$59,437. We traced each disbursement to supporting documentation, including Board-approved claims warrants and meeting minutes, vouchers, invoices, and purchase receipts, to determine if they were supported, approved, and legitimate. When applicable, we also reviewed the supporting documentation to verify that the shipping address was the Library's address.

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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