



Gloversville Public Library Claims Processing

Report of Examination

Period Covered:

July 1, 2012 — December 31, 2013

2014M-81



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 Trustees 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 Gloversville Public Library, entitled Claims Processing. 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 Gloversville Public Library (Library) is located in the City of Gloversville and serves the approximately 19,200 residents of the Gloversville Enlarged School District (District) in Fulton County. The Library is a school district public library. The Library received its charter from the New York State (NYS) Board of Regents in 2005 and is overseen by the NYS Education Department.

The Library is governed by a nine-member Board of Trustees (Board), each of whom is elected by District voters. The Board is responsible for the general management and control of the Library's financial affairs. The Board-appointed Library Director (Director) is responsible for the Library's day-to-day administration. The Treasurer, who is also appointed by the Board, is the custodian of all funds.

The Library reported operating expenditures of \$427,000 for the 2012-13 fiscal year. These expenditures were funded with revenues obtained from real property taxes, donations, grants and fees collected from Library patrons. Appropriations for the Library's 2013-14 fiscal year total \$483,000.

Objective

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

- Are internal controls over claims processing designed to adequately protect and account for Library assets?

Scope and Methodology

We examined the Library's internal controls over claims processing for the period July 1, 2012 through December 31, 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 generally agreed with our recommendations and indicated they planned to initiate 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 Secretary's office.

Claims Processing

The Board is responsible for establishing an adequate system of internal controls over processing claims¹ to ensure taxpayer moneys are safeguarded. To meet this responsibility the Board must establish policies and procedures that ensure that each claim contains sufficient supporting documentation to determine compliance with Library policies, the underlying goods or services have been received and the amounts claimed represent actual and necessary expenditures. In addition, the Board is responsible for thoroughly and deliberately auditing all claims prior to approving them for payment. Each claim should be assigned a sequential claim number and be included on an abstract of claims presented to the Board for audit. Approval of the abstracts should be documented in the Board minutes and Board members can also sign or initial the claims to further indicate approval.

Internal controls over the claims audit process were not appropriately designed to protect and account for Library assets. The Board's procurement policy assigned authority for the approval of claims to the Director. The Board does not have any other policies or procedures to ensure that claims are adequately documented, audited and approved. Furthermore, delegating authority for auditing and approving claims to the Director was not appropriate because it did not achieve an independent audit of claims and segregate the incompatible duties of making purchases² and approving claims for payment. The Board did not properly audit or approve claims. Library officials did not number claims sequentially or require employees to document the receipt of goods or services being billed for on each claim. Furthermore, claims were approved either by the Director or by the Library Clerk.³ In some instances, claims were remitted directly to the Treasurer for payment without review or approval by the Director or the Library Clerk. Although one Board member reviewed claims as a part of the check-signing process, they were not reviewed by any other members of the Board. Additionally, the Board member who reviewed the claims did not document his review and approval by signing the claims. The Board member also did not verify that the Director or Library Clerk signed the claims that they audited.

We reviewed 40 disbursements⁴ totaling \$19,339 which were for the payment of 80 claims. We found, that although the payments appeared

¹ Claims are bills or invoices submitted by vendors requesting payment for goods or services.

² The Library's procurement policy also makes the Director responsible for making purchases.

³ This Library Clerk also made purchases.

⁴ Selected randomly

to be for appropriate Library purposes, they were not supported by adequate documentation or audited and approved. All 80 claims lacked documentation that the goods or services being billed for were actually received and 13 claims totaling \$1,012 were not supported by an itemized receipt, invoice or other adequate documentation. Therefore, we could not determine whether they were for appropriate purposes. For example, eight purchases totaling \$241 were included on credit card statements and paid without supporting documentation and four purchases totaling \$471 were included on vendor statements and paid without supporting documentation. Additionally, 46 claims totaling \$15,464 contained evidence of approval by the Director or Library Clerk, but the remaining 34 claims totaling \$3,875 lacked evidence of any approval prior to payment.

When claims are not supported by adequate documentation and reviewed and audited by the Board prior to payment, it increases the risk of inappropriate and incorrect payments. Also, weak internal controls over claims processing could lead to the Library paying for services not rendered or goods not received.

Recommendations

The Board should:

1. Establish a claims processing policy and establish procedures to ensure that claims are properly documented before they are audited and approved,
2. Properly audit all claims prior to payment to ensure the claims are for appropriate Library purposes and they include adequate supporting documentation and
3. Ensure that its audit and approval of claims for payment is clearly documented by evidence in the minutes and noted on the claims.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Barbara Madonna
Library Director

2013-2014
Board of Trustees

Elizabeth Batchelor

Eleanor Brooks

Craig Clark

Vincent DeSantis

Jay Ephraim

David Fisher

Robin Lair

Hannah McAllister

Christine Pesses

June 18, 2014

Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396

To Whom It May Concern:

On behalf of the Gloversville Public Library Board of Trustees, please accept this letter as our formal response and Corrective Action Plan to the findings and recommendations contained in your draft Report of Examination concerning the library's claims processing procedures.

First, I would like to take the opportunity to thank you and your staff for the diligence and professionalism shown during the course of this review. The on-site examiner worked cooperatively with our staff offering suggestions to improve our internal financial controls while minimizing the disruption to the library's day-to-day operations. Their work was exemplary and should be commended.

Since receiving a new state charter in 2005 to operate as a public rather than an association library, we have implemented a number of new business practices as we learned to navigate such things as New York State Retirement and Civil Service and we appreciated the auditors' advice to further improve the business side of our operation.

Your auditors reviewed a sample of 40 disbursements for the payment of 80 claims. While the report stated that all payments appeared to be for appropriate library purposes, the auditors made three recommendations to improve the documentation and board review of all claims presented to the library for payment.

In response to your review, the Board's Finance Committee developed the below Corrective Action Plan addressing your recommendations. The Board approved the plan and began following the recommendations in June. Library policies related to these recommendations are currently being revised.

Specifically, the Corrective Action Plan addresses the following three recommendations made in the review:

1. Establish a claims processing policy and establish procedures to ensure that claims are properly documented before they are audited and approved.

The Library's Finance Committee and Policy Committee is developing a claims processing policy that will be presented to the full board at its July meeting. The policy will outline who is responsible for the various steps of the claims auditing process as well as the listing documentation that shall be submitted for Board approval to ensure timely payment for all bills.

2. Properly audit all claims prior to payment to ensure the claims are for appropriate library purposes and they include adequate supporting documentation.

The claims processing policy will establish who will be responsible for the claims audit as per the Office of the State Comptroller guidelines. At its June meeting, the board approved the establishment of an audit committee that will be required to audit claims prior to their submission for full board approval. Based on the recommendation of the audit committee, the full Board at each regular meeting will approve a list of claims for payment.

3. Ensure that audit and approval of claims for payment are clearly documented by evidence in the minutes and noted on the claims.

The claims processing policy will require the Board to pass a resolution approving claims at each regularly monthly meeting and that the resolution be documented in the meeting minutes. The policy will also require each Board member present at the monthly meeting to sign the summary sheet listing all the claims approved.

The Board recognizes that in order to remain a vital institution for our community, we must exercise proper financial controls and fiscal responsibility. We appreciate your input and assistance as we continue our work ensuring the Library's resources are protected and preserved so that we may maintain the Library's ability to provide for the changing needs of our community well into the future.

Again, thank you for your time and for the opportunity to respond to your review finding.

Sincerely,

David Fisher
President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Library's 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. During our initial assessment, we interviewed Library officials, performed limited tests of transactions and reviewed pertinent documents, such as Library policies and procedures, Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those areas most at risk. We determined that risk existed within claims processing. Therefore, we examined the internal controls over claims processing for the period July 1, 2012 through December 31, 2013.

To accomplish the objective of this audit and obtain valid and relevant audit evidence, our procedures included the following:

- We assessed relevant policies and procedures to determine whether they were adequate.
- Because the Library does not assign a claim number to invoices or bills, we randomly selected 40 disbursements and reviewed them to determine whether they were supported by an itemized invoice or receipt, contained evidence of receipt of goods and contained evidence of audit and approval.

We conducted this performance audit in accordance with 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.

APPENDIX C

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