OFFICE OF THE NEW YORK STATE COMPTROLLER

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DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Newark School District Public Library

Board Oversight

Report of Examination

Period Covered:

July 1, 2011 — August 26, 2013

2014M-54

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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 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 Newark School District Public Library, entitled Board Oversight. 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*

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The Newark Public Library (Library) is a school district public library located in the Village of Newark, Wayne County. A Board of Trustees (Board), which comprises seven elected members, governs the Library[1] and is primarily responsible for the general oversight of the Library's financial affairs. The Library Director (Director) is the executive and administrative officer of the Library and is responsible for the day-to-day management of the Library. The former Director resigned during our audit fieldwork; an interim Director was on staff through the end of our fieldwork.[2] The Board-appointed Treasurer[3] is the custodian of all Library funds.

The Library's budgeted appropriations for the 2013-14 fiscal year were approximately $614,000, which were funded primarily with real property taxes, along with minimal revenues from grants, rental income and fines collected on overdue materials.

Scope and Objective

The objective of our audit was to review the Board's oversight of Library operations for the period July 1, 2011 through August 26, 2013. We extended our scope to January 31, 2014 to review bank and investment statements. Our audit addressed the following related question:

- Has the Board exercised sufficient oversight to adequately safeguard Library resources?

Audit Results

We found that the Board was not sufficiently aware of its many legal and administrative requirements and responsibilities as Trustees of a School District Public Library and, therefore, did not provide adequate oversight of Library operations. For various aspects of operations, Library officials seemed to believe that, and operate as if, the Library was a not-for-profit (NFP) corporation, instead of a public entity.

The Board has not adopted a procurement policy or a code of ethics to provide statutorily required guidance to staff to ensure compliance with laws related to procurement, bidding, and avoidance and disclosure of conflicts of interest. The Board also has not adopted policies and procedures for other aspects of Library operations, including cash receipts and disbursements, claims processing and auditing, credit cards, payroll processing, accounting records and reports and information technology

[1] Under a general set of by-laws, last updated in September 2008
[2] The Board appointed a new Director, effective April 7, 2014.
[3] When we began our audit, the library did not have a treasurer. The Board appointed a treasurer on April 10, 2013.

(IT), to provide guidelines and defined responsibilities to officials and employees. As a result, financial duties were not segregated, compensating controls were not in place, and we found significant deficiencies related to cash receipts, payroll processing, cash disbursements and claims auditing, and accounting records and reports.

All Library employees were able to receive cash at multiple cash-collection points, using unlocked cash drawers. When requested, they prepared handwritten receipts, with no duplicate copy for the Library's records. Also, other than tracking fines and fees in the Pioneer Library System (PLS), employees did not record the daily cash receipts for other services, including copying, faxing, printing, Library merchandise and program fees. At the end of each day, employees removed and recorded only the paper money and checks from the cash drawers (leaving all coins in the drawers). Thus, their weekly deposit of cash receipts was not intact.

The Director determined salaries and wages without Board approval by resolution. In addition, the bookkeeper and former Director performed nearly all payroll and personnel functions without independent oversight and no Library official independent of the process verified the accuracy of or certified the completed payroll. Furthermore, Library employees did not complete a daily time record of their actual hours worked. The bookkeeper processed payrolls based on the employees' scheduled work hours and gave payroll information to the payroll vendor one day prior to the end of the pay period. This practice makes it impossible for a Library official to appropriately certify the accuracy of the payroll, and that all hours paid were indeed worked. In addition, the Board allowed the payroll vendor contracted by the Library to disburse payroll by accessing the Library's bank account and withdrawing enough funds to cover payroll, payroll taxes, health insurance premiums and fees for its services.

The Board did not approve claims for payment before the disbursements were made, and did not complete a thorough review of the claims as required. Furthermore, since the Board did not establish and enforce procedures requiring itemized claims and adequate supporting documentation, it is likely that Board members would need to make substantial inquiries if they were to thoroughly audit the claims.

Library officials had not filed the required annual financial report, referred to as the annual update document (AUD), since the Library first became a public entity, effective in the 2006-07 fiscal year. They indicated they were unaware of this requirement. After we began audit fieldwork, the bookkeeper filed the 2011-12 and 2012-13 AUDs with the Office of the State Comptroller (OSC). The Library, however, may have incurred unnecessary costs to file an IRS Form 990 which is not required to be filed by public entities. Further, the Board did not annually audit the Library's accounting records or ensure records were maintained in accordance with OSC regulations, and did not implement corrective action to address recommendations in the internal control review report prepared by an outside accountant.

Comments of Local Officials

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 findings and recommendations and indicated they have begun, and will continue, to implement corrective action.

Introduction

Background

The Newark Public Library (Library) is a school district public library located in the Village of Newark, Wayne County. The Library received its charter from the Board of Regents of the State Education Department in October 2006.[4] The Library serves the residents of the Newark Central School District. A Board of Trustees (Board), which comprises seven elected members, governs the Library[5] and is primarily responsible for the general oversight of the Library's financial affairs and the safeguarding of Library resources. The Library Director (Director) is the executive and administrative officer of the Library, is appointed by the Board, and is responsible for the day-to-day management of the Library, including the management of staff. The former Director resigned during our audit fieldwork, effective May 1, 2013, after running the Library for nearly 30 years; an interim Director was on staff through the end of our fieldwork.[6] The Board-appointed Treasurer[7] is the custodian of all Library funds.

The Library's budgeted appropriations for the 2013-14 fiscal year were approximately $614,000, which were funded primarily with real property taxes, along with minimal revenues from grants, rental income and fines collected on overdue materials. If, for any fiscal year, the Library wishes to increase the tax levy (currently at $463,000), school district voters must approve the increase.

The Library is part of the Pioneer Library System, (PLS).[8] The PLS administers a computerized integrated library system and supports its member libraries by providing services such as maintaining computer databases of the Library's inventory of materials on hand for loan, library patron borrowing histories, fines and fees paid and outstanding account balances.

Objective

The objective of our audit was to review the Board's oversight of Library operations. Our audit addressed the following related question:

- Has the Board exercised sufficient oversight to adequately safeguard Library resources?

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4 Previously, the Library was operated as a village public library by the Village of Newark.

5 Under a general set of by-laws, last updated in September 2008

6 The Board appointed a new Director, effective April 7, 2014.

7 When we began our audit, the library did not have a treasurer. The Board appointed a treasurer on April 10, 2013.

8 PLS is a New York State chartered cooperative library system, serving the 42 public libraries in Ontario, Wayne, Wyoming and Livingston counties, and was created to enhance the service of and promote cooperation among its member libraries.

Scope and Methodology

We examined the Library's control environment and the Board's oversight activities related to financial operations for the period July 1, 2011 through August 26, 2013. We extended our scope to January 31, 2014 to review bank and investment activity and balances.

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 are 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 findings and recommendations and indicated they have begun, and will continue, to implement 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 Library to make this plan available for public review in the Director's office.

Board Oversight

The Library is considered a public entity and is subject to many of the same laws and regulations as other local governments. It is the Board's responsibility to understand the legal foundation of the Library and the extent and limitations of the Board's authority, and to be familiar with the statutes which pertain to Library operations, as well as their comprehensive responsibilities as Library Trustees.[9] The Board and Director must establish adequate policies, procedures and internal controls over Library operations to safeguard Library resources and ensure that the Library complies with applicable laws, rules and regulations.

We found that the Board was not sufficiently aware of its many legal and administrative requirements and responsibilities as Trustees of a school district public library, and therefore, did not provide adequate oversight of Library operations. In fact, for various aspects of operations, Library officials seemed to believe that, and operate as if, the Library was a not-for-profit (NFP) corporation, instead of a public entity. For example, the Library did not file the required annual financial report with the Office of the State Comptroller (OSC), and may have incurred unnecessary costs to have an outside accountant annually prepare and file IRS Form 990, which is generally not required for governmental entities.[10] While such confusion may have contributed to some of the deficiencies we identified related to legal compliance, the Board also failed to establish and enforce basic internal controls over Library operations, which would be essential for any entity to operate effectively.

Although the Board had adopted an investment policy pursuant to statutory requirements, it did not follow or enforce the policy. Instead, it allowed Library moneys (totaling nearly $1.2 million as of June 30, 2013) to be improperly deposited in types of investments which are not allowed by law, putting Library resources at a greater risk for loss.[11] In addition, the Board had not developed written policies and procedures covering most other aspects of financial operations including cash receipts and disbursements, claims processing and auditing, credit cards, payroll processing, accounting records and

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9 The *Handbook for Library Trustees of New York State* is an invaluable resource for Board members, and is available at *http://www.nysl.nysed.gov/libdev/pltrust/handbook/handbook.pdf*

10 Other examples include failure to implement certain policies required by law for all public entities, and using investment vehicles that are statutorily prohibited for public entities, which will be addressed further in this report.

11 General Municipal Law (GML) is restrictive and emphasizes safety and liquidity over yield.

reports and information technology (IT), and had not adopted a code of ethics. The lack of detailed policy and procedural guidance for staff, with very few internal controls in place, left much at the discretion and control of the former Director (who had run the Library for nearly 30 years) and significantly increased the risk that errors or irregularities could occur and remain undetected or that the Library could pay more than necessary for goods and services. The lack of established procedures and internal controls led to the many deficiencies identified during our audit.

Improper Investments

GML requires the Board to adopt and annually review a comprehensive investment policy that establishes procedures and instructions for Library officers and staff for depositing and investing Library moneys in a manner that complies with statutory requirements and safeguards public funds. GML provides that local governments may temporarily invest moneys not required for immediate expenditure in special time deposit accounts in, or certificates of deposit issued by, a bank or trust company located and authorized to do business in New York State, or in obligations of the State of New York, or of and guaranteed by the United States.

The Board adopted an investment policy, last updated September 2012, which properly restricted authorized investments to those allowed by law. However, the Board ignored its policy, and did not limit Library investments to those types allowed by law. We found that the Library had improper investments with two investment brokerage firms.[12] As of the June 30, 2013 fiscal year-end, the Library had approximately $1.2 million invested in mutual funds, fixed income securities and cash equivalents.[13] These improper investments put Library moneys at risk and could result in a loss of principal. For example, the June 2013 statement for the smaller account indicated a loss of approximately $4,600;[14] thus, if the Library had needed to cash in this account to cover expenditures at that time, it would have received less money than it had available to it one month prior.

We had various discussions throughout our audit fieldwork with Library officials, including the Director, bookkeeper, Board President

[12] These firms are not banks or trust companies and their products are not solely time deposits or certificates of deposit; most importantly, the firms' account statements and websites indicate that the cash and investment accounts are not fully FDIC insured or guaranteed, and may lose value.

[13] $262,381 with one broker, invested in mutual funds, fixed income investments, and cash/money accounts; and $934,372 with another broker, in mutual funds and cash equivalents.

[14] The total value of the account dropped from $267,021 at May 31, 2013 to $262,381 at June 30, 2013. Losses were incurred for other months as well, while some months had gains. This volatility of principle balance is the primary reason that GML does not allow public entities to invest taxpayer moneys in unguaranteed investments.

and current Treasurer, related to the improper investments. These discussions prompted the Board to pass a resolution on June 12, 2013 to move moneys from certain investment accounts into "holdings consistent with NYS Municipal Law." However, the Board President instead moved these moneys into its improper accounts with one of the investment brokerage firms. We had further discussions, with the Board President on July 1, 2013 and the Treasurer on July 12, 2013, and again explained the types of statutorily authorized investments that the Library may use. Nonetheless, Library officials continued to deposit Library moneys in improper investment accounts.

After we completed fieldwork, we obtained statements for the Library's bank and investment accounts as of December 31, 2013. On December 27, 2013 the Library closed out its smaller account with one broker, and deposited $275,039 into its savings account at the Library's commercial bank, which is a proper investment vehicle. However, the Library still held $930,193 with the other firm. While only a small portion of that is invested in mutual funds, and the rest allocated to "cash equivalents," they are not held by a commercial bank or trust company, and – as disclosed on the broker's monthly statement and website – are money market funds not insured by the FDIC, are not deposits or obligations of or guaranteed by a financial institution, involve investment risks, and are subject to possible loss in value. Furthermore, when we requested updated investment information on February 6, 2014, we learned that the Library transferred $635,000 from its commercial bank to a credit union on January 14, 2014, which is also not authorized by GML. This left very little cash ($6,187) in one of the Library's only legally authorized savings accounts; nearly all of the Library's cash assets are now[15] deposited in investments not authorized by law, and subject to loss of value.

In addition, the Treasurer is also the assistant branch manager at the Newark branch of this credit union. While a credit union does not fall into the authorized types of banking institutions to be used as a depository of public funds, GML provides that the Treasurer may not have an interest in the Library's designated depository. Furthermore, the Library's investment policy requires the Treasurer to refrain from personal business activity that could conflict with the proper execution and management of the Library investment program, or impair her ability to make impartial decisions. The Treasurer, as assistant branch manager, is responsible for helping to oversee the operation of the credit union, supervising staff and providing routine member services and transactions including opening new accounts. Maintaining Library funds in this institution, given the Treasurer's role in managing it, may represent a prohibited conflict of interest and could put these moneys at more risk of loss or misappropriation.

[15] As of February 2, 2014

Policies and Procedures

GML requires the Board to adopt written policies and procedures for procurements not subject to legal requirements for competitive bidding, and encourages the Board to adopt a code of ethics to establish the expected standards of conduct for officers and employees, and communicate standards with respect to conflicts of interest and the disclosure of interests in Library contracts pursuant to GML. The Board should also develop written policies for all finance-related areas including cash receipts and disbursements, claims processing and auditing, credit cards, payroll processing, accounting records and reports, and IT. The Director is generally responsible for developing written procedures to implement the policies adopted by the Board. Board policies and related procedures should clearly establish tasks to be performed for all operations and require that these duties be adequately segregated, or compensating controls put in place.

We found that the Board has not adopted a procurement policy or a code of ethics to provide statutorily required guidance to staff to ensure compliance with laws related to procurement, bidding, and avoidance and disclosure of conflicts of interest. The Board also has not adopted policies and procedures for other aspects of Library operations, including cash receipts and disbursements, claims processing and auditing, credit cards, payroll processing, accounting records and reports and IT, to provide guidelines and defined responsibilities to officials and employees. As a result, financial duties were not segregated,[16] compensating controls were not in place, and we found significant deficiencies related to cash receipts, payroll processing, cash disbursements and claims auditing, and accounting records and reports.

<u>Procurement Policy and Procedures</u> – Due to the lack of a procurement policy or written purchasing procedures, Library staff do not use purchase orders or requisitions to document prior approval of purchases, and separate authority has not been assigned for the ordering, approval or receipt of purchased good or services. The bookkeeper does the majority of purchasing and ordering, but the Director and youth services librarian may also make purchases at will. The bookkeeper also receives all purchased items and performs all aspects of the bill payment process. The lack of clear and enforced purchasing procedures, segregation of ordering, receiving and payment functions, and a written procurement policy requiring competitive quotes significantly increases the risk of errors, improper or unauthorized purchases and payments,[17] and purchases made at higher prices than necessary.

[16] The bookkeeper performs almost all duties, without supervision, related to purchasing, cash disbursements, payroll processing, bank reconciliations and preparation of accounting records and reports.

[17] For examples of payments tested, see Audit of Claims

Information Technology – The Board is responsible for establishing comprehensive policies and procedures to protect the Library's computer equipment, software, and data against the risk of loss, misuse, or improper disclosure of sensitive data. This includes developing a comprehensive disaster recovery plan to provide guidance on the recovery of data in the event of a disaster, and a breach notification policy[18] to provide guidance in the event that private data is accessed by unauthorized individuals.

The Board has not established detailed policies and procedures[19] related to personal, private and sensitive information (PPSI), passwords, data backups, equipment sanitation and disposal, breach notification, or disaster recovery. Additionally, there is no system in place for proper segregation or monitoring of financial activities within the IT environment. As a result, one individual processes all transactions in and has full control of the financial bookkeeping application; IT equipment is not properly approved for, or sanitized prior to, disposal; and backups are kept onsite and are not tested periodically. Due to the lack of IT policies and procedures, the Board has failed to define responsibilities and provide an appropriate framework for IT related to Library operations. Therefore, IT assets and data are at higher risk for unauthorized, inappropriate or wasteful use.

Code of Ethics – The Library's personnel policy contains one brief provision requiring employees to conduct business within guidelines that prohibit actual or potential conflicts of interest; however, no such detailed guidelines are in place. The lack of a detailed policy which ensures compliance with applicable laws and regulations, and then clearly stipulates the Board's policies related to other potential matters of ethics or appropriate conduct, can generate confusion or unrest, and allow individuals to make their own assumptions regarding appropriate conduct.

Cash Receipts

The Board is responsible for establishing an effective system of internal controls over cash receipts to ensure that all moneys received by the Library are properly receipted, recorded, safeguarded, deposited and accounted for. Safeguarding measures include procedures to ensure individual accountability over the receipt of cash and storing cash in a secure location until it is deposited.

The Library collected approximately $17,000 during the 2012-13 fiscal year from charges, fines and fees.[20] Because the Board did not

[18] New York State Technology Law requires all local governments to have a Breach Notification Policy.

[19] The Library has a very basic Technology Use Policy as part of its Personnel Policy, which does not address many key IT risk areas.

[20] As reported on the Library's AUD filed with OSC for the 2012-13 fiscal year.

establish policies and procedures to implement adequate internal controls over the cash receipt process, we identified significant control weaknesses. When we began audit fieldwork, all library employees could receive cash at three cash collection points, using unlocked cash drawers. Employees did not use a cash register or computerized point of sale system, and did not issue receipts to patrons unless requested. When requested, they prepared handwritten receipts, with no duplicate copy for the Library's records. The PLS system automatically assesses all late fees for overdue Library materials, and all payments of those fines and fees are recorded in the PLS system to clear the patrons' accounts. However, employees did not record the daily cash receipts for other services, including copying, faxing, printing, Library merchandise and program fees; they just put the cash collected in the drawer. Thus, there was no accountability for all revenues received.

At the end of each day, employees removed only the paper money and checks from the three cash drawers (leaving all coins in the drawers), wrote the total amount removed on a closing slip, and put the slip and cash in an unlocked drawer in the Director's office. Because they only recorded and deposited the total of the paper money and checks on hand, they did not actually record all collections received each day, or deposit them intact. The Director entered amounts from the daily cash collection slips into a weekly cash report and discarded the daily collection slips. Once a week, the Director gave the weekly cash report and money to a Clerk who prepared a weekly deposit record, deposited the money in the bank, and shredded the Director's weekly reports. Furthermore, all employees had access to and often entered the Director's office to make change for Library patrons from a separate change fund[21] also kept there; Therefore, employees also had access to the daily receipts that are held in the Director's drawer all week.

Due to these internal control weaknesses, we tested 22 weekly deposit records to bank deposits for the period February 11, 2013 to July 10, 2013, with no exceptions. However, with no accountability over receipts, we could not verify that all cash taken in was recorded on the weekly cash or deposit reports. We also compared the total fines and fees per these weekly deposit records to the "desk payment reports"[22] generated by the Library for us[23] from the PLS system. In

[21] A fifty dollar change fund was maintained in the Director's office for when Patrons paid with larger bills that could not be broken with the currency already in the register.

[22] These reports show the amount of fines that were collected from patrons for overdue library materials for any given time period.

[23] We to ask the Library staff to generate these reports for us; no one at the Library generates these reports to compare them periodically to the deposit records for reasonableness.

total, the fines and fees per the weekly deposit reports were greater than amounts entered in the PLS system by $3,074. This is most likely because Library employees do not record in the system any fees received from patrons for copying, printing, faxing, etc. There is no accountability over these revenues and no way to verify that all amounts received were actually recorded and deposited.

In addition, due to the significant weaknesses identified, and the timing of the former Director's resignation, we totaled the "fines and fees" per the weekly deposit records, less the fines and fees per the "desk payment reports," for the two 11-week periods immediately before and after the former Director left (February 11 to April 22, 2013, and April 29 to July 10, 2013). The unaccounted-for deposits (for copying, printing, faxing, etc.) increased somewhat, by $414, or 31 percent, during the 11-week period after the former Director left. While it is possible that weekly collections are indeed sporadic, we also observed that the total amount of "forgiven payments"[24] in the PLS system for the 11 weeks before the Director left was almost three times higher[25] than the amount forgiven during the 11 weeks after she left.

During our audit fieldwork, Library officials were taking action to address certain risks that we had discussed with them. For example, Library officials purchased and installed three printers (in June 2013) that were hooked up to the integrated Library system to allow staff to give patrons a printed receipt, if requested, for the payment of fines for overdue Library materials. The Library also purchased a cash register, which was put into service September 4, 2013,[26] to facilitate the recording of over-the-counter cash collections in one location. In addition, at the close of the Library each day, all cash is taken from the register and put in a bank bag along with the cash register transaction report,[27] and put in the drawer in the Director's office. Each morning, an employee takes the $75 startup cash out of the bag and puts it back in the register for the new day. She then counts the cash and reconciles the total to the previous day's cash receipts per the cash register tape, enters the information in a spreadsheet, and into a daily sales count record which is then placed with the money back in the Director's drawer until the weekly deposit is made. We encourage Library officials to continue enhancing internal controls over cash, including considering the feasibility of issuing duplicate receipts and depositing more frequently than once per week.

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24 Library employees may forgive fines and fees posted to patron accounts by the PLS system, for errors or special circumstances, at their own discretion.

25 $734 verses $257 for the 11-week period after the Director left

26 Along with brief written instructions for cash register operations and daily closing procedures

27 The cash register tape/report shows the total collected in each of seven programmed categories, and the total collections for the day.

Payroll Processing

Payroll is the Library's most significant operating cost. Therefore, it is essential that management design and implement effective controls over the payroll process, which include well-developed policies and procedures that describe employee responsibilities and provide guidance regarding preparing and disbursing payroll to ensure that payroll is disbursed in accordance with all legal requirements, Library policies and the Board's authorizations and intentions. Effective payroll policies should assign tasks so that incompatible duties are segregated and no one person has the ability to control all phases of a transaction. In addition, the Board must authorize, by resolution, all salaries, wages and fringe benefits[28] and a Library official must examine the payroll and certify that the employees listed have worked the hours claimed and are being paid at Board-approved rates. Furthermore, the Library may engage a private contractor to perform certain functions in connection with payroll preparation, but may not delegate to that payroll vendor duties such as having custody of and disbursing Library funds.

We found that the Board did not implement effective controls or policies and procedures over payroll processing. The Board did not approve salaries and wages to be paid to Library staff. The Director determined salaries and wages, including her own, without Board approval by resolution.[29] In addition, the Library's payroll and personnel functions were not segregated. The bookkeeper added and modified employee records, including leave accruals and pay rates, entered biweekly payroll information into the system, called in the payroll information to the payroll vendor, and distributed paychecks. The bookkeeper performed most of these duties without direct supervision and no Library official independent of the process verified the accuracy of or certified the complete payroll before (or after) it was processed by the payroll vendor.[30]

Furthermore, Library employees did not complete a daily time record of their actual hours worked. The bookkeeper processed payrolls based on the employees' scheduled work hours, which is inappropriate and often inaccurate due to unscheduled changes (staff calling in sick, using vacation leave, or being called in to cover for other staff). In addition, the bookkeeper called in the payroll information to the payroll vendor one day prior to the end of the pay period, which does not allow for schedule changes on the last day of the pay period to be included in the correct payroll. The bookkeeper stated that any

[28] As required by NYS Education Law

[29] While the former Director stated that pay rates were reviewed and discussed at personnel committee meetings, there are no minutes to support her statement, and the Committee's approval does not take the place of the required Board approval.

[30] Library officials and staff indicated they were unaware of the payroll certification requirement.

changes not corrected in the current payroll would be included in the next payroll. This practice makes it impossible for a Library official to appropriately certify the accuracy of the payroll, and that all hours paid were indeed worked.

In addition, the Board allowed certain payroll functions required by statute to be performed by the Treasurer to be delegated and performed by the payroll vendor contracted by the Library. The payroll vendor disbursed payroll by accessing the Library's bank account and withdrawing enough funds to cover payroll, payroll taxes, health insurance premiums, and fees for its services. The payroll vendor wrote Library payroll checks (or directly deposited funds in employees' accounts) from its own bank account. While the Board may contract with a vendor to process the payroll and prepare the payroll checks, those checks must be written against the Library's bank account, because the Board may not delegate the Treasurer's disbursement duties to a vendor.

We reviewed payroll records for five employees from July 1, 2011 through February 20, 2013.[31] We compared the hours worked from the scheduling software reports to the bookkeeper's payroll journals and compared the hours and gross payroll from the payroll journal to the payroll registers generated by the payroll vendor, with no exceptions; however, with the lack of employee time records and independent review, there is no way to verify that the bookkeeper included the correct hours worked by all employees in the payroll journal. We also compared pay rates from the payroll journal and payroll vendor report to the rates approved by the Director, but we still lack any assurance that these rates were authorized by the Board. We also reviewed and compared the electronic withdrawals for the two biweekly payrolls in March 2013 made by the payroll vendor from the bank statements to the bookkeeper's payroll journal and payroll vendor's payroll register. While we did not find any material errors or irregularities during our testing, the lack of established payroll procedures and reasonable controls significantly increases the risk of unauthorized or inappropriate payments, or that employees may be paid for more or less hours than they actually worked.

Audit of Claims

The Board is responsible for thoroughly and deliberately auditing all claims[32] and approving them for payment before disbursements are made, and for establishing procedures to ensure each claim contains sufficient supporting documentation to determine compliance with laws and Library policies, that the goods or services have been received, and that the amounts claimed represent actual and necessary

[31] See Appendix B for details on sample selection

[32] Claims are bills or invoices submitted by vendors requesting payment for goods or services.

expenses. Approval must be documented in the Board minutes and Board members can sign or initial claims to further indicate approval.

The Board did not establish procedures for the audit and approval of claims, and there was no evidence in the minutes, or notations on the claims, to indicate that claims were audited. Invoices were generally paid by the bookkeeper a week before the Board meeting. The bookkeeper prepares an abstract of claims paid since the last meeting and the Director presents it to the Board for review at its next meeting. Board members may ask questions about the invoices, which are available for their review if desired. While the minutes indicate that the Board approved abstracts of the paid claims, they did not approve them for payment before the disbursements were made, and did not complete a thorough review of the claims as required. This process affords the Board no ability to address and withhold payment of any questionable expenses, because all invoices have already been paid before they are presented to the Board.

Due to this significant control weakness, we reviewed 94 claims totaling nearly $60,800 to determine whether they were sufficiently itemized or contained adequate supporting documentation, and appeared to represent appropriate Library expenses. We found various minor deficiencies, which we discussed with Library officials. Although our testing did not disclose significant deficiencies or evidence of fraudulent transactions, the Board's failure to conduct a proper and thorough audit of claims increases the risk that fraud or abuse could occur and not be detected and corrected in a timely manner.

Records and Reporting

GML requires the Treasurer to file an annual financial report, referred to as the annual update document (AUD), with OSC within 60 days after the close of the fiscal year. The AUD is a representation of the Library's financial position and results of operation. The usefulness of the AUD depends on its timeliness and accuracy. Thus, it is essential for the Board and Director to implement adequate controls to ensure that accounting records are maintained accurately, timely and in accordance with OSC regulations. The Board should annually audit, or engage an independent accountant to audit, the Library's accounting records to ensure they are adequate and support an accurate annual financial report. The Board and Director should implement timely corrective action to address all audit findings and recommendations in any audit conducted of the Library.

Library officials had not filed the required AUD since the library first became a public entity, effective in the 2006-07 fiscal year. They indicated they were unaware of this requirement. After we began audit fieldwork and informed Library officials of the filing requirement, the bookkeeper filed the 2011-12 AUD with OSC on February 22, 2013.

The bookkeeper also filed an AUD for the 2012-13 fiscal year within the Library's approved 60-day extension.

Library officials indicated they did contract with an outside accountant to annually prepare and file an IRS form 990 with the Federal Internal Revenue Service (IRS), which is an information return generally not required for governmental entities.[33] As a public entity, the Library is not required to file Form 990, and thus could realize a cost savings if it no longer pays an accountant to file one. During our audit period, the Library paid a total of $5,000 to the accountant to prepare the 990 informational returns for 2010, 2011 and 2012 calendar years.

In addition, the bookkeeper performed primarily all financial duties and made all entries into the computerized accounting software, with no oversight or independent review. The software is set up more for a NFP corporation than for a public entity, the bookkeeper does not maintain cash receipts or disbursements journals, and the library does not use the uniform system of accounts for libraries that is contained in the *Accounting and Reporting Manual*.[34] Using the uniform system of accounts would also simplify the preparation of the annual AUD filed with OSC. Further, the Board does not audit the bookkeeper's accounting records or review them periodically to help ensure that all activity is recorded and reported completely and accurately.

In 2011, the Board engaged a certified public accountant (CPA) to conduct an internal control review for the fiscal year ended June 30, 2011. The CPA issued a detailed report on February 3, 2012 which included numerous significant internal control deficiencies, many of which are also included in this audit report. Library officials had taken very little corrective action to address these deficiencies. The Board's failure to properly examine the Library's accounting records, and take adequate corrective action for all audit recommendations, diminishes its ability to manage the Library's financial operations.

Recommendations

1. The Board should adhere to and enforce all provisions of its investment policy, and divest itself from all improper investments and place all Library moneys in time deposits, certificates of deposit, or other investments in accordance with GML.

2. The Board should establish written policies and the Director should develop written procedures for Library operations, including cash receipts and disbursements, purchasing, credit cards, claims processing, payroll processing and IT, that detail,

[33] IRS form 990 is only required to be filed by Association libraries, which are not-for-profit corporations.

[34] *http://www.osc.state.ny.us/localgov/pubs/arm.pdf,* published by OSC

assign and segregate duties and establish adequate compensating controls. These should also include:

- The statutorily-required adoption and annual review of a procurement policy to provide guidance for seeking competition for items not required to be competitively bid.

- A code of ethics establishing the expected standards of conduct for officers and employees, and communicating standards with respect to conflicts of interest and the disclosure of interests in Library contracts Pursuant to GML.

- Comprehensive IT policies and procedures that address the use of and access to personal, private and sensitive information, passwords, data backups, equipment sanitation and disposal and controls over the financial software application.

- A formal disaster recovery plan that documents steps to be taken in the event of an emergency.

- An information breach notification policy.

3. Library staff should issue duplicate receipts for all cash received to increase accountability over cash receipts.

4. Library officials should adequately secure all undeposited moneys in locked drawers or cabinets and locked offices, and restrict access at all times until it is deposited. Library officials should also consider making deposits more frequently than once a week.

5. The Board should authorize, by resolution, salary and wages for Library officials and staff; ensure that a Library official certifies the payroll before it is processed by the payroll vendor; ensure that accurate and complete time records are maintained for all Library staff to serve as supporting documentation for the payroll registers; and ensure that only time actually worked is submitted for payment.

6. The Board should not allow the privately-contracted payroll vendor to access the Library's bank account to withdraw funds for payroll and related payments and fees for its services. The Board should require the private contractor to submit claims for payroll services and health insurance premiums.

7. The Board should segregate the duties of maintaining accounting records, processing payroll and cash disbursements, and preparing monthly bank reconciliations, or institute compensating controls such as supervisory review of the bookkeeper's work.

8. The Board should establish and implement effective claims processing and audit procedures to ensure Board members receive all claims for audit and approval for payment before the disbursements are made. The Board's audit of claims should be sufficiently detailed to be able to verify that the claims are adequately itemized and purchases are for legitimate Library purposes and are in compliance with Library policies and applicable laws.

9. The Board should ensure that the bookkeeper continues to file the AUD with OSC, and audit the bookkeeper's accounting records to ensure they support the AUD.

10. The Board should implement corrective action to address all findings in all audits conducted of the Library.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Newark Public Library
121 High Street
Newark, NY 14513
(315) 331 4370
www.newarklibrary.org

June 12, 2014

Edward V. Grant
Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant:

I write on behalf of the Newark Public Library Board of Trustees in response to the preliminary draft findings of your recent examination of our library.

First I would like to thank you and your office for investigating and writing this report. It will help us improve the efficiency and effectiveness by which we handle the Newark Public Library's finances. Our board members appreciate the time you committed to this audit and the advice we received from it. Although we find the vast majority of your findings and recommendations helpful, there are a few that we find currently inaccurate due to miscommunication or because we have adjusted our procedures accordingly.

We have implemented more controls of the handling of cash. Along with using only one cash register for transactions, employees now print, sign, and label receipts according to what category (book sale, copies, fines, fax, contributions, other sales) the payment falls under. We now print the individual transaction receipts and the accumulated daily receipt to use to check our cash intake.

Your report states that the library incurred "unnecessary costs to file an IRS Form 990 which is not required to be filed by public entities." Although you accurately report we are not required to file the form, you inaccurately report that we incurred unnecessary costs. Although we pay an accountant about $1500 to file IRS Form 990, the form allows us to annually claim between $3000 and $3500 for certain health insurance tax rebates. Annually, filing the form nets our library between $1500 and $2000. Additionally, our director consulted the New York State Division of Library Development (DLD) regarding this issue in April of this year, and they said our library can file this form.

In response to your comments on the 2011 CPA account, that we have "taken very little corrective action to address these deficiencies," we believe it should be noted that during much of this period we were without a permanent director. In fact, we went through several acting directors while we sought out a permanent replacement. Our board focused largely on this task in order to have a stable and consistent CEO of library operations. We hired our new director in

April, and since then we have worked to rectify many of the control deficiencies recommended in the 2011 CPA audit. For example, this month a new bookkeeper is in training and will no longer place orders or handle cash from patrons, our board passed a finance policy in 2012, there are multiple signers on checks for bank accounts, bank reconciliations are completely up to date, we instituted annual notifications of employee salaries, we now create a balance sheet in addition to the budget vs. actual report for regular board meetings, we resolved the issues of back tax reporting we owed the IRS, and every document we receive is opened, sorted and filed appropriately. We have worked and continue to work to rectify the deficiencies reported in the 2011 CPA and in your report as well.

We thank you for your time and this opportunity to respond to the preliminary draft of your recent examination of the Newark Public Library board oversight. We look forward to creating a plan with you as we move forward to make our library more efficient and fiscally sound.

Sincerely,

Joey Nicosoia
Board President
Newark Public Library
121 High Street
Newark, NY 14513

Cc: [redacted]

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board provided adequate oversight of the Library's operations. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on the areas most at risk. Our initial assessment included evaluations of the following areas: Board oversight, investments, cash receipts and disbursements, purchasing, payroll and IT. During the initial assessment, we interviewed appropriate Library officials, performed limited tests of transactions, and reviewed pertinent documents, Board minutes and available 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, or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected Board oversight for further audit testing.

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

- We interviewed appropriate Library officials and employees to gain an understanding of the Library operations and to determine internal controls in place.

- We reviewed Board minutes, personnel policies, the investment policy and limited available Board policies (which were adopted during audit fieldwork). We also reviewed the Library's policies and procedures relating to IT and interviewed users to determine their knowledge of IT controls.

- We reviewed bank and investment statements and financial records, and related Board authorizations, to determine if Library moneys were properly invested.

- We counted cash on two occasions (earlier in fieldwork, and after the resignation of the Director) for cash collection accountability.

- We traced cash collections for twenty-two weekly deposit record reports to bank deposits for the period February 11 to April 22, 2013 and April 29 to July 10, 2013 and compared the total of the "fines and fees" per these weekly deposit record reports to the "desk payment reports" (generated by the Library for us) for any variances.

- We tested the pay rate for five employees to determine whether they were paid at authorized rates and if payments were adequately supported. We tested payments to the Director and bookkeeper due to their positions and duties. We used a spreadsheet macro to randomly select three other employees. We used the payroll and scheduling journals for 2011 through 2013 to record the number of hours and gross pay, and then compared the number of hours and gross pay as listed on the Payroll vendor's reports.

- We reviewed the electronic withdrawals made by the payroll vendor for the two bi-weekly payrolls for March 2013, and compared them to the payroll registers.

- We reviewed 94 claims totaling nearly $60,750, to determine whether they were properly itemized or contained adequate supporting documentation, and represented appropriate Library expenses. We tested all payments to the (former) Director (12), the bookkeeper (1), the former Treasurer (1), the two full-time library staff (10) and a (former) Board member (1) because of their higher-profile positions. We also tested all payments to the IT consultant (4) and his son (1) due to their close relationship with the former Director. We tested all 14 payments to the grocery store for credit card purchases of food and supplies. The remaining 50 claims were randomly selected using a spreadsheet macro. We reviewed the vouchers to determine if the claims were sufficiently itemized, receipts were retained by the library, if the library was charged appropriately, and if the purchase was reasonable.

- We reviewed the Library's accounting records and monthly and annual reports to determine if records and required and necessary reports are prepared accurately and timely.

- We reviewed the prior internal control review prepared by an external auditor and reviewed records and inquired of staff to determine if corrective action had been implemented to address the findings in the report.

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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APPENDIX D

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