



Sidney Memorial Public Library Cash Disbursements

Report of Examination

Period Covered:

July 1, 2012 — June 13, 2014

2014M-252



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Directors 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 Sidney Memorial Public Library, entitled Cash 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 New York State General Municipal Law.

This audit's results and recommendation 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 Sidney Memorial Public Library (Library) is located in the Village of Sidney in Delaware County.¹ The Library is governed by a Board of Directors (Board), which comprises seven elected members. The Board is responsible for general management and control of the Library's financial affairs. The Library Director (Director) is the chief executive officer and is the Treasurer responsible for day-to-day operations as well as the custody of Library money. The Library has an administrative assistant who is responsible for various financial activities, including issuing and recording disbursements (including payroll) and reconciling the bank statements.

The Library has 21 full-time and part-time employees. Library appropriations for the 2013-14 fiscal year totaled \$601,000, which were funded by real property taxes and donations.

Objective

The objective of our audit was to examine the Library's financial operations. Our audit addressed the following related question:

- Did the Board ensure that cash disbursements were for proper Library purposes?

Scope and Methodology

We examined the Library's cash disbursement practices for the period July 1, 2012 through June 13, 2014.

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 recommendation 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 recommendation 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*

¹ The Library has two branch offices located in the community of Sidney Center and the Town of Masonville.

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

Cash Disbursements

The Director and Board are responsible for ensuring that all Library disbursements are made for proper purposes. Disbursements, including payroll, should be adequately supported, approved by the Board and accurately recorded in the accounting records. The accounting records should periodically be reconciled with the activity in the bank accounts. Additionally, financial duties should not be performed by one individual without adequate mitigating controls in place. Finally, Library officials may engage a private vendor to perform certain payroll preparation functions but may not delegate the custody of Library funds and disbursement duties to that payroll vendor.

The Board ensured that cash disbursements, including payroll, were for proper Library purposes. The administrative assistant was assigned and performed many key financial duties such as reviewing cash drawer receipts and deposits; recording all transactions including payroll, cash receipts and disbursements; and printing disbursement checks. As a result, the Director and Board instituted specific mitigating controls to reduce the risk that payment processing errors and irregularities could occur and not be detected. However, the Director allowed the Library's payroll vendor access to a Library bank account to withdraw funds for payroll and related payments and fees for its services.

The Director and Board recognized the associated risks and took steps to prevent any errors or irregularities and detect them in a timely manner. The Board assessed the various risks facing the Library's financial operations, identified the weaknesses and established controls to reduce those risks identified. The controls put in place require dual signatures for all disbursements, the Board President's approval on all bank transfers, the Director's review of the bank reconciliations performed by the administrative assistant and a review of payroll journals produced by the payroll vendor.

Our audit testing revealed that the mitigating controls Library officials put in place were operating effectively and we found no exceptions with the propriety and complete and accurate recording for the transactions we reviewed.² The Director told us the decision to contract Library payroll with the vendor was made because the administrative assistant's duties lacked segregation. The Director also told us she was unaware that the payroll vendor was not permitted custody of and access to the Library bank account.

² See Appendix B for information on our methodology and sample selection.

By implementing internal and mitigating controls, the Board reduced the risks of fraud, theft and abuse and ensured that funds are used for proper Library purposes. However, because the payroll vendor has unrestricted access to a Library bank account, there is a risk that Library funds may be lost or misused and not detected in a timely manner.

Recommendation

1. 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 for fees for its services.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

SIDNEY MEMORIAL PUBLIC LIBRARY
8 River Street Sidney, New York 13838
Phone 607-563-1200 FAX 607-563-7675
Rosalind Conner Director



November 13, 2014

H. Todd Eames, Chief Examiner
Office Of The State Comptroller
Division Of Local Government and School Accountability
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Re: Response and Corrective Action to Cash Disbursements, Report of Examination 2014M-252

Dear Mr. Eames:

On behalf of the Sidney Memorial Public Library Board of Trustees, please accept this letter as our formal response and Corrective Action Plan to the findings and recommendations of the draft Report of Examination concerning cash disbursements for the period July 1, 2012 – June 13, 2014.

First we would like to thank you and your staff for the diligence and time spent conducting this audit. The on-site examiner worked cooperatively with the staff offering suggestions to improve our internal financial controls while minimizing the disruptions to the library's day-to-day operations.

Recommendation:

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 Director took action to mitigate this weakness by changing the practice of allowing the payroll vendor to withdraw funds for fees for its services. This change was implemented with the August 27, 2014 payroll. The library now receives a monthly invoice from the vendor.

Thank you for your time and the opportunity to respond to your findings.

Sincerely,

David J. Dewey
President, Board of Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The overall objective of our audit was to determine if Library officials ensured cash disbursements were for proper Library purposes for the period July 1, 2012 through June 13, 2014. To accomplish our objective and obtain valid audit evidence, we performed the following steps:

- We interviewed Library officials to document and analyze the cash disbursement process.
- We tested 29 bank transfers totaling \$447,500 listed in the bank statements to determine if disbursements were made for proper library purposes and accurately recorded in the accounting records. We judgmentally selected 20 non-payroll bank transfers from the Library savings account by starting with the first one during our audit period and selecting every third one. We also tested all nine other non-payroll bank transfers from the other Library bank accounts during our audit period.
- We tested 42 canceled check images (30 randomly selected disbursements and 12 judgmentally selected disbursements based on personal use vendors and payments to Library officials) from bank statements, totaling \$20,000, to determine if non-payroll disbursements were for proper library purposes and recorded in the accounting records.
- We reviewed the June 2013 and May 2014 bank reconciliations to determine if these bank reconciliations were complete, accurate and reasonable.
- We reviewed the first bank statement for each bank account and every other bank statement for each account during our audit period to determine if checks clearing the bank were issued in sequential order.
- We tested 20 payroll vendor invoices totaling \$1,600 to determine if the amounts listed on the invoice agreed with the amount deducted from the Library checking account. We selected our sample by starting with the first invoice during the audit period and selecting every third invoice.
- We selected five employees from five different payroll periods during our audit period to determine if employees were paid the Board-approved rates. To select our sample of employees, we judgmentally selected our sample to include the Director and the administrative assistant and randomly selected three additional employees by starting with the second regular-pay employee and then every sixth employee. We selected the five payroll periods by starting with the first payroll in our audit period and then every other payroll.
- We reviewed 10 payroll journals to determine if payroll was accurately recorded, employees were paid the correct hours worked and payroll deductions were properly calculated and remitted to federal and State agencies. We selected our sample by starting with the fourth payroll journal in our audit period and then every fifth payroll.

- We tested all employees who received leave accrual buyouts during our audit period to determine if the employees were paid in accordance with the contracts in place.

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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