



Northville Public Library Cash Disbursements

Report of Examination

Period Covered:

July 1, 2013 — October 31, 2014

2015M-53



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

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 the 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 Northville 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 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 Northville Public Library (Library), part of the Mohawk Valley Library System, is located in the Village of Northville in Fulton County and serves approximately 3,000 residents. The Library is a school district public library governed by a nine-member Board of Trustees (Board) elected by the residents of the Northville Central School District. The Board is responsible for the general management and control of the Library's financial affairs. The Board-appointed Library Director (Director) is the Library's executive and administrator who acts as the Library's financial clerk and is also responsible for preparing the Library's annual financial report (AUD) with the Office of the State Comptroller. The Board-elected Treasurer is responsible for the Library's funds and for providing monthly written financial reports to the Director and the Board.

The Library's budgeted appropriations totaled \$152,987 for the 2014-15 fiscal year, funded primarily by real property taxes.

Objective

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

- Do Library officials ensure that cash disbursements are properly recorded, supported and for a valid Library purpose?

Scope and Methodology

We examined the Library's cash disbursement activity for the period July 1, 2013 through October 31, 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 are included in Appendix C of this report.

Comments of Library 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. Except as specified in Appendix A, Library officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the Library's response.

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 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.

Cash Disbursements

Library officials are responsible for ensuring that all cash disbursements are properly recorded in the accounting system and that cash is disbursed for valid business purposes when authorized and supported by appropriate documentation. To meet this responsibility, Library officials should establish cash disbursement policies and procedures. New York State Education Law requires the Board to audit and approve all claims against the Library prior to directing the Treasurer to pay them.¹ The Library Treasurer, who is the custodian of Library funds, should pay claims after the Board's audit and approval. The Treasurer's custodial function may not be delegated to third-party service providers and there is no authority allowing service providers to have direct access to the Library's bank accounts.²

Library officials need to improve the cash disbursement process to ensure that cash disbursements are properly recorded, supported and for valid Library purposes. During our audit period, the Treasurer paid 365 claims totaling \$212,327 from eight Library bank accounts.³ The Board did not audit and approve any cash disbursements made from the Library's checking account before payments were made. Instead, the Board approved a list of vendors and payment amounts without any supporting documentation at the next month's Board meeting after the Treasurer already paid them.

Further, the Director had sole access to the Library's savings and money market bank accounts and withdrew more than \$37,000⁴ from these accounts. The Board did not audit or otherwise authorize these withdrawals and the Director did not record them in the accounting records. As a result of these deficiencies, there is an increased risk that Library funds could be used for unauthorized or invalid purposes and not be detected. Because the Board did not conduct a claims audit or provide oversight of the Library's cash disbursements process, we reviewed 170 disbursements totaling \$94,591⁵ from Library bank accounts.

¹ The Board may, by resolution, authorize payment in advance of audit for claims related to public utility services (i.e., electric, gas, water, sewer and telephone), postage, freight and express charges.

² One checking, one savings and six money market accounts

³ These cash disbursements included 318 checks and online payments totaling \$175,206 from the checking account and 47 cash withdrawals totaling \$37,121 from the savings and money market accounts.

⁴ Withdrawals were made to purchase money orders to pay for debt service payments, Library materials, credit card balances and Library performances.

⁵ See Appendix B for information on our sample selection.

The Board did not audit and approve 123 check and online disbursements totaling \$57,470 paid from the Library checking account before payment was made. Fifteen of these disbursements totaling \$3,097 did not contain supporting documentation to show the description and quantity of the items and services purchased.

- Nine online payments totaling \$2,615 to a book vendor were paid from a statement of the amount owed with no list of items purchased.
- Six credit card payments totaling \$482 were paid from the credit card statement and lacked an itemized list of the items purchased.

Without the itemized documentation, we could not determine if these disbursements were for valid Library purposes.

The Director made 47 cash withdrawals from the savings and money market accounts totaling \$37,121 during our audit period.

- No itemized supporting documentation was maintained for 16 of these withdrawals totaling \$2,008. For example, 12 withdrawals totaling \$1,831 were used to obtain money orders to pay individuals for services such as landscaping and magician performances without itemized support showing the purpose of the withdrawal.
- Seven cash withdrawals for money orders totaling \$447 were made to pay credit card balances with no detailed support, and thus we could not determine if these seven expenditures were for valid Library purposes.

The Director stated that the authority to withdraw funds from these accounts to pay expenditures was given to him through the Library's finance policy. However, the policy states that the savings accounts "may be overseen" by the Director with Board approval. The Treasurer should be paying all Library claims by check after the Board has audited the claim. If savings account money is used to pay individual vendors for Library claims, the money should be transferred from the savings account to the checking account and the payment should be processed following the established audit and check disbursement process.

In addition, the Treasurer relinquished custodial control over Library bank accounts by allowing service providers to automatically deduct funds directly from the Library's checking account to pay for the

Director's retirement contributions and the Library's phone and utility services.

We reviewed 33 online payments totaling \$16,230 and found that a service provider initiated 22 online withdrawals totaling \$2,962. The Treasurer made the remaining 11 online payments totaling \$13,268 for federal and State payroll tax deposits and payments for the Director's deferred compensation program. Both the Treasurer and Director told us that they were unaware that service providers were not allowed to make withdrawals directly from the Library's bank account.

Furthermore, because Library officials did not ensure that all cash disbursements were properly included in the Library's accounting records, the Library's 2013-14 AUD did not include all of the Library's expenditures. We determined that approximately \$4,700, or about 26 percent of expenditures, that were paid by cash withdrawals from Library savings accounts were not included on the AUD. In addition, a \$50,106 certificate of deposit was not included in the cash balances reported on the AUD, resulting in assets and fund balance being understated by this amount.

As a result of these deficiencies, there is a risk that a claim could be paid for unauthorized or invalid Library purposes and not be detected, and service providers could access and withdraw Library funds for inappropriate purposes. In addition, when the financial records and the AUD are incomplete, the Board cannot readily determine the Library's financial condition or review the Library's financial operations.

Recommendations

The Board should:

1. Perform a thorough audit of all Library claims, including online payments and cash withdrawals from all bank accounts, before approving payment and ensure that all claims are adequately supported.
2. Establish policies and procedures that prohibit service providers from having direct access to Library bank accounts.
3. Establish policies and procedures to ensure that the accounting records and reports are complete and contain all expenditures and cash accounts.

The Treasurer should:

4. Ensure that all disbursements, including online payments and cash withdrawals from all bank accounts, are audited by the Board before paying the claims.
5. Transfer money from the savings account(s) to the checking account to prepare checks for expenditures that will be paid from the savings account(s).
6. Maintain custodial control over all bank accounts and discontinue allowing service providers direct access to Library bank accounts.

The Director should:

7. Ensure that all expenditures and all cash accounts are included in the accounting records and the AUD.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

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

July 17, 2015

Jeffrey Leonard
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

To Whom It May Concern:

On behalf of the Northville 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 cash disbursements.

The findings will assist the Board of Trustees in its continual efforts to diligently protect the assets of the Library, which in turn allows the provision of excellent library services consistent with the best use of taxpayer funds.

With regards to the findings on page 6 that the director withdrew funds without the Board's knowledge or permission, we, the Board, disagree. The director withdrew and used those funds with our implicit approval and understanding that said withdrawals were necessary for the operation and services of the library.

See Note 1 Page 11

In response to this review, the Library Board has developed the below Corrective Action Plan addressing your recommendations.

1. **Audit Recommendation:** The Board should perform a thorough audit of all Library claims, including online payments and cash withdrawals from all bank accounts, before approving payment and ensure all claims are adequately supported.
Implementation Plan of Action: The Board established an Audit Committee to approve all payments and claims.
Implementation Date: March 2015
Person Responsible for Implementation: Board of Trustees
2. **Audit Recommendation:** The Board should establish policies and procedures that prohibit service providers from having direct access to Library bank accounts.
Implementation Plan of Action: The Board directed the Treasurer to contact service providers and discontinue their access to bank accounts.
Implementation Date: March 2015
Person Responsible for Implementation: Board of Trustees
3. **Audit Recommendation:** The Board should establish policies and procedures to ensure that the accounting records and reports are complete and contain all expenditures and cash accounts.
Implementation Plan of Action: The Board monthly reviews accounting records and reports provided by the Treasurer and the Library Director.
Implementation Date: March 2015
Person Responsible for Implementation: Board of Trustees

4. **Audit Recommendation:** The Treasurer should ensure that all disbursements, including online payments and cash withdrawals from all bank accounts, are audited by the Board before paying the claims.
Implementation Plan of Action: The Treasurer makes disbursements which have been approved by the Audit Committee.
Implementation Date: March 2015
Person Responsible for Implementation: Board Treasurer
5. **Audit Recommendation:** The Treasurer should transfer money from the savings account to the checking account to prepare checks for expenditures that will be paid from the savings account.
Implementation Plan of Action: The Audit Committee reviews all claims and authorizes the withdrawals for payments. All withdrawals are recorded and reviewed by the Board of Trustees.
Implementation Date: March 2015
Person Responsible for Implementation: Board Treasurer
6. **Audit Recommendation:** The Treasurer should maintain custodial control over all bank accounts and discontinue allowing service providers direct access to Library bank accounts.
Implementation Plan of Action: The Treasurer has contacted the three library service providers with direct access to accounts and has discontinued this service.
Implementation Date: June 2015
Person Responsible for Implementation: Board Treasurer
7. **Audit Recommendation:** The Director should ensure that all expenditures and all cash accounts are included in the accounting records and the AUD.
Implementation Plan of Action: The Director has developed another spreadsheet as suggested by the auditors and will include all accounts on the annual AUD.
Implementation Date: December 2014
Person Responsible for Implementation: Library Director

Thank you for the opportunity to respond to your review finding.

Sincerely,

Janis Serfis
President, Library Board of Trustees

APPENDIX B

OSC COMMENT ON THE LIBRARY'S RESPONSE

Note 1

We did not find evidence of Board approval, implicit or expressed, for using savings account funds to pay for Library operating expenditures. Our review did not disclose Board approval for withdrawing savings account money before expenditures were made. While savings account withdrawals were included in the Treasurer's monthly reports, no evidence was presented to us that the Board audited these transactions.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Library's cash disbursement operations for the period July 1, 2013 through October 31, 2014. To accomplish our objective and obtain valid audit evidence, our procedures included the following:

- We made inquiries of Library officials and reviewed Board minutes to evaluate and document the extent of Board oversight of the cash disbursement process.
- We reviewed the Library's accounting records and reports to determine if the accounting records were adequate, complete and accurate.
- We reviewed a sample of 170 disbursements to determine if they were authorized by the Board before payment. We also evaluated the adequacy of supporting documentation to determine if these expenditures were for valid Library purposes. We used a random number generator to select 114 online payments and check disbursements from the operating checking account. In addition, we reviewed all credit card payments that were not already included in our random sample and all cash withdrawals from Library savings accounts.
- We reviewed the 2013-14 AUD to determine if the accounting information provided was complete and accurate.

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 D

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