



Your Home Public Library

Financial Management

Report of Examination

Period Covered:

June 1, 2013 – April 13, 2016

2016M-228



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2016

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 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 Your Home Public Library, entitled Financial Management. 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

Your Home Public Library (Library) is located in the Village of Johnson City (Village), within the Town of Union, in Broome County, and operates out of a Village-owned building. The Village is the Library's chartering municipality. The Library's services include lending books, DVDs and audio CDs and various other community services, such as hosting children's programs and adult education programs.

A five-member Board of Trustees (Board) governs the Library and is primarily responsible for the general oversight of the Library's financial affairs and safeguarding Library resources. Trustees are appointed by the Village Board. The Board-appointed Library Director (Director) is the Library's executive and administrative officer and is responsible for the day-to-day activities, including managing staff and initiating most Library purchases.

Until March 2015, the Village Treasurer was custodian of all Library funds and provided financial reports to the Library. Since March 2015, the Library's Director has been custodian of Library funds, and the Library's account clerk has provided financial reports to the Board. The Board did not appoint another Treasurer until June 13, 2016.

The Library's budgeted appropriations for the 2015-16 fiscal year were \$675,361, funded primarily with real property tax levies and fines and fees collected from Library patrons. The Library is part of the Four County Library System, which provides services such as maintaining computer databases of the Library's inventory of materials on hand for loan, patron borrowing histories, fines and fees paid and outstanding account balances.

Objective

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

- Has the Board effectively managed the Library's financial condition to adequately safeguard the Library's resources?

Scope and Methodology

We examined the Board's management of the Library's financial condition for the period June 1, 2013 through April 13, 2016.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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. Library officials disagreed with certain findings in our report. Appendix B includes our comments on issues 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.

Financial Management

The Board is responsible for effectively managing the Library's financial condition to safeguard its resources. The Board should provide adequate oversight to assess the effectiveness and appropriateness of the Library's financial activity. Monitoring allows the Board to be aware of the Library's financial condition, compare actual results to plans and avoid any significant cost overruns or estimation errors. To effectively provide oversight and monitor financial activity, the Board should review and approve vouchers before payment to ensure claims are for proper Library purposes, receive complete and accurate financial reports to monitor the Library's financial position and ensure bank statements are reviewed for the propriety of financial activity. The Board also should track budget-to-actual expenditures and make budget modifications when necessary to prevent overexpenditures.

Villages are authorized to make temporary interfund advances from one fund to another to provide money to a fund that is unable to cover its own expenditures due to a cash shortage. However, these advances should be repaid no later than the close of the year in which the advances were made.

The Board has not effectively managed the Library's financial condition to adequately safeguard the Library's resources. The Library experienced increasing operating deficits over the completed fiscal years of \$41,611 in 2012-13, \$87,767 in 2013-14 and \$174,485 in 2014-15, which was \$87,000 more than Library officials planned. This occurred because Library officials expended more than budgeted appropriations, primarily for building maintenance, health insurance and personal service costs. In addition, the Board was not monitoring the Library's financial position and did not address these rising costs. As a result, based on the most reliable data within our scope, unappropriated fund balance declined from over \$224,000 to approximately \$42,000, or by about 81 percent, during this period.

The Board was unaware of the Library's true financial condition. Prior to March 2015, the Board relied on the Village to handle its fiscal oversight responsibilities. The Village Treasurer reviewed and approved vouchers for payment, made budget modifications and reviewed bank statements. Furthermore, although the Board received monthly financial reports from the Village Treasurer that included budget-to-actual comparisons of revenues and expenditures, the reports did not include accurate cash or fund balances. Library and Village officials are currently working towards establishing an accurate fund balance amount by reviewing revenues and expenditures back to March 2005.

As a result, the Board thought the Library had approximately \$500,000 available to fund operations. However, at the beginning of January 2015, the Library had approximately \$61,000 cash available and spent almost \$67,000 during the course of that month. Because the next significant anticipated revenue was not due until late February, the Village Treasurer recognized the cash shortage to cover operations and made an interfund advance of \$100,000 from a capital projects fund to the library fund.¹

The Library Board questioned the necessity of the interfund advance and, in March 2015, assumed custody of Library accounts and began generating all financial records and reports internally. Since March 2015, the Board has been reviewing each month's bank statements and reviews and approves vouchers for payment. The Board currently receives monthly financial reports from the Library account clerk that compare the budget to actuals for all revenues and expenditures.

Furthermore, the financial reports still do not consistently provide accurate cash and fund balances. As of March 2016, the Library has reduced its expenditures from previous years and is projected to stay within its budgetary means for the 2015-16 fiscal year,² with an operating surplus of approximately \$46,000. Using the Library's budget-to-actual reports, we project estimated fund balance as of May 31, 2016 will be \$88,000. However, the \$100,000 interfund advance from the Village remains outstanding.

Although the Board has improved its management of the Library's spending, it still does not have a complete and accurate understanding of its financial condition. If the Board does not continue to improve its understanding, the Library may continue to experience similar financial concerns in the future.

Recommendations

The Board should:

1. Determine an accurate fund balance for use in internal and external financial reporting going forward.
2. Ensure it receives complete and accurate information about the Library's financial condition.
3. Ensure that interfund advances are repaid by the close of the fiscal year in which they are made.

¹ Whether this interfund advance by the Village was properly undertaken in accordance with GML section 9-a is outside of our audit scope, which focused on the Library.

² On March 14, 2016, the Board approved a new fiscal year to run from March 1 through the end of February, effective as of March 1, 2016. For the purposes of consistently presenting financial condition, our report retains a May 31 fiscal year end.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

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

September 21, 2016

Office of the State Comptroller
Division of Local Government & School Accountability
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York, 13901-4417

To Whom It May Concern:

I am writing on behalf of the Your Home Public Library (YHPL) Board of Trustees in response to the findings and recommendations for the period June 1, 2013 – April 13, 2016. This letter will also serve as our Corrective Action Plan (CAP).

The YHPL Board of Trustees welcomed this audit from the comptroller's office with two specific goals in mind. First, the Board was seeking suggestions to strengthen the internal financial operations of the library. Second, the Board was requesting the assistance of the Comptroller's Office in working with officials of the Village of Johnson City to resolve the fund balance discrepancy. The fund balance discrepancy is partially due to years of the Library's "monthly financial reports from the Village Treasurer that...did not include accurate cash or fund balances." The fact of the inaccuracy of these reports is acknowledged by Village of Johnson City officials, the Library Board and here in this audit report. The request to aid the Library with the fund balance discrepancy was made clear to the auditors during the interviews with the board members, the library director and in emails including to the principal examiner.

Upon review of the draft audit report, the Board of Trustees and Library Director are pleased that the fiscal controls which have been implemented since the financial break from the Village of Johnson City in March 2015 have been acknowledged as improvements. The focus of the board is on establishing strong fiduciary practices, and creating sustainability through a series of policy changes and cost savings measures.

In 2015-2016, YHPL was told to leave the village-held health insurance plan and was able to save \$77,300 while providing employees with an equitable health-care plan. Using a third-party payroll service and purchasing unemployment insurance directly resulted in another savings of over \$22,000. Paying directly for heat and electric, rather than billing through the Village, resulted in \$4,500 in savings, and small cuts to the materials and programming budgets resulted in nearly \$12,000 in savings. All of these attempts to save monies have occurred while undergoing several projects to maintain and improve the 130+ year-old Village-owned building.

The issue of the fund balance discrepancy became a major finding of the audit. This was an issue the Board had specifically asked the Comptroller's Office for assistance in resolving during the audit process. Throughout the entire audit process, the YHPL Board of Trustees has been open and forthright, providing access to the extensive documentation collected in reference to the village-held library funds including receipted revenues and expenditures utilizing the Village detailed budget reports, review of check and receipt images, library board budgets, payroll records, and approved vouchers. In response, the Comptroller's Office deemed a complete review of the fund balance issue as outside of the scope of this audit despite acknowledging the fund balance discrepancy as integral to the findings of the review. This finding is of little help to the Library Board, since we entered the review acknowledging the discrepancy.

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The YHPL Board of Trustees asserts that the scope and methodology of the audit did not match the objectives and findings of the audit. The audit team refused to review information prior to 2013 as 'outside the scope of the audit'. However, extensive evidence¹, prior to 2013, establishes a sufficient library fund balance. Thus, refusal to review evidence prior to 2013 does not allow this audit report to meet the GAGAS standard noted in the report. "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." This audit of YHPL "based on the most reliable data within our scope" is largely based on the Village certified public accountant reports, which themselves were based solely on information provided by the Village Treasurer and do not include input from YHPL. For example, the deficit noted in 2012-2013 includes a Village general fund transfer of \$9,241 which was executed by the Village Treasurer without the approval of the YHPL Board of Trustees.

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In regard to the fiscal condition of the YHPL, the Board of Trustees has an entirely accurate understanding of its current financial standing outside of the village-held funds. We will continue attempts to meet with the Village of Johnson City officials to establish an accurate fund balance by reviewing revenues, transfers, and expenditures back to March 2005. March 15, 2005 is a significant date as it marks the receipt of the first check from collecting tax monies after the establishment of the Union Library taxing district, completely separate from the Village. In addition, the Board has requested information from the Village regarding the expenditure of employee deductions in 2014-15 which were not applied as expected to the health insurance premiums paid by the library.

Recommendation 1: Determine an accurate fund balance for use in internal and external financial reporting going forward.

Plan of Action: The library fiscal committee will continue to attempt to meet with the Village of Johnson City officials to review any additional documentation that is found by either the library or the village with the goal of determining an accurate fund balance.

Implementation Date: ongoing, as agreed to by Village of Johnson City Mayor Gregory Deemie and the Library Board (per Library Board Meeting Minutes February 9, 2015)

Person(s) Responsible: YHPL Fiscal Committee and Mayor Deemie

Recommendation 2: Ensure that interfund advances are repaid by the close of the fiscal year in which they are made.

Plan of Action: The YHPL Board of Trustees has established through review of check images and established tax levy amounts that the revenue receipted from March 15, 2005 - April 2015 was approximately 6.5 million dollars. The expenditures during this same period were approximately 6.25 million dollars as established by village detailed budget reports, images of receipts, library board budget reports, payroll records, approved vouchers, and the Village of Johnson City Local Governmental Balance Sheet, available on the NY Comptroller's website. The data establishes that the library revenues exceeded the library expenses. The interfund loan made by the Village Treasurer to the village-held library accounts should have been unnecessary and was made without a full review of the library funds or approval of the YHPL Board. YHPL has established that Village continues to hold sufficient YHPL funds to satisfy this unapproved interfund transfer.

Implementation Date: based on the aforementioned ongoing meetings, as agreed to by Mayor Deemie and the Library Board (per Library Board Meeting Minutes February 9, 2015)

Person(s) Responsible: YHPL Fiscal Committee and Mayor Deemie

Recommendation 3: Ensure it receives complete and accurate information about the Library's financial condition.

Plan of Action: After conversation with the audit team, it was determined that the YHPL account clerk needed to date the library budget reports to coincide with the print date of said reports.

Implementation Date: 9/7/2016

Person(s) Responsible: YHPL Account Clerk and Library Director

See
Note 8
Page 11

¹ Evidence supplied to Comptroller's Audit Team with detailed support documentation. The same such detailed evidence can be obtained by request.

YHPL appreciates the guidance of your field staff during this audit process. We look forward to continuing to serve the residents of Johnson City and the Town of Union.

Sincerely,

Lynette Bryan, Board President
Your Home Public Library Board of Trustees

APPENDIX B

OSC COMMENTS ON THE LIBRARY'S RESPONSE

Note 1

The audit team provided Library officials with technical assistance and support during the audit to aid them in determining the Library's fund balance. The Board's lack of awareness of its fund balance is part of the reason we reported that the Board has not effectively managed the Library's financial condition.

Note 2

Library officials wanted the audit team to conduct a financial audit dating back to 2005, which would be over a 10-year scope period. However, the scope and objective of our audits are not subject to local official request. We determined the Library's fund balance based on the most reliable information available dating back to 2012-13. We did not find any discrepancies that would cause us to expand our scope period. Having a better idea of available fund balance will help Library officials effectively manage the Library's financial condition.

Note 3

OSC audit objectives are determined by a number of factors, such as risk. The objective of this audit was not to calculate the Library's fund balance. However, to determine if the Board had effectively managed the Library's financial condition, we calculated fund balance to confirm the large decline within our audit period due to overspending. Even if we were able to determine that additional fund balance was available by reviewing records prior to 2012-13, the \$182,000 decrease in fund balance over the three-year period reviewed would not change.

Note 4

During our audit period, the Library Board relied on the Village to maintain its financial records. The evidence used during our audit included information provided by the Village, Library and the Village's certified public accountant, who conducted annual financial statement audits complying with standards. The evidence obtained was sufficient and appropriate to provide a basis for our findings as determined by the audit team. The audit team consists of qualified and competent professional performance auditors, who have knowledge of and are trained in the requirements of GAGAS performance audits. To meet those standards, we cannot make determinations based on information provided without reasonably ensuring that the evidence is reliable.

Note 5

Prior to March 2015, the Board relied on the Village Treasurer to handle its fiscal oversight responsibilities, which included making budget transfers. The fact that these transfers were made

without the approval or awareness of the Board shows that the Board was not effectively managing the Library's financial condition at the time. More importantly, the need for such transfers resulted from the Library spending more than its revenues.

Note 6

As stated in the response, Library officials are still working to determine an accurate fund balance. Without this, it cannot be determined that there are "Village-held funds." In addition, the monthly financial reports provided to the Board still do not contain accurate fund balance figures.

Note 7

The Library was created by the Village and is chartered as a Village Public Library. It is not a separate taxing district because it is not an entity with defined boundaries. As of March 15, 2005, the Town of Union's voters approved a proposition to increase the amount of the Library's annual funding to be raised by the Town. The Town and the Village both contribute toward the Library. Using March 15, 2005 as the Library's start date assumes that the Library starts with a blank slate as of that date. This ignores the Library's financial condition prior to that date.

Note 8

The audit team advised Library officials to determine the reason for, and correct, the inaccurate financial reports. The audit team suggested the difference in printing dates and dates of available balances as a possible reason for the inaccuracies.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Library officials to gain an understanding of the Library, its operations and its budget development process.
- We analyzed the Library's financial condition for the last three completed fiscal years (2012-13 through 2014-15).
- We reviewed Library bank statements to determine whether an interfund advance was necessary in January 2015.
- We verified that real property tax revenues were deposited into Library bank accounts intact for the period June 1, 2013 through April 13, 2016.
- We verified that all significant disbursements and transfers of funds (252 disbursements and transfers totaling \$2,984,085, which composed 2 percent or more of the dollar value to clear the bank during a period covered by a bank statement) were supported by an approved voucher or by payroll records, or were transferred into another Library account.
- We reviewed financial reports to the Board from the Village Treasurer and the Library account clerk to assess the completeness and accuracy of their presentation of revenues, expenditures, comparisons of revenues and expenditures to the budget, cash balances and fund balances.

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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