



Oneida Public Library District Cash Disbursements

Report of Examination

Period Covered:

July 1, 2012 — June 30, 2014

2015M-20



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
CASH DISBURSEMENTS	4
Claim Payments	5
Line of Credit	6
Direct Bank Account Withdrawals	7
Petty Cash	8
Recommendations	9
APPENDIX A Response From District Officials	11
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2015

Dear District 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 Trustee 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 Oneida Public Library District, 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 Oneida Public Library District (District) was established in Madison and Oneida Counties and includes portions of the City of Oneida and the Towns of Lincoln, Lenox, Verona, Vienna and Vernon within the Oneida City School District's boundaries. The District was created by special legislation in August 1996 and is part of the Mid-York Library System (MYLS).

A seven-member Board of Trustees (Board) governs the District and is elected by District residents. The Board-appointed Library Director (Director) is responsible for the District's day-to-day administration. The Board appoints one of its members to serve as the District Treasurer (Treasurer), responsible for custody of all District funds. The District has a part-time Business Manager who is responsible for recording transactions in the District's accounting system and generating checks for the Treasurer to sign. The District's operating budget for the 2014-15 fiscal year is \$382,110.

Objective

The objective of our audit was to review internal controls over the District's cash disbursement process. Our audit addressed the following related question:

- Did the Board establish adequate internal controls over cash disbursements?

Scope and Methodology

We examined the Board's oversight of the District's cash disbursement procedures for the period July 1, 2012 through June 30, 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 District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law (GML). For more information on preparing and filing your CAP,

please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the secretary's office.

Cash Disbursements

The Board is responsible for developing effective internal controls over cash disbursements to provide reasonable assurance that District resources are adequately safeguarded from loss, waste and abuse. Additionally, the Board is responsible for taking an active role in safeguarding the District's resources by monitoring its financial operations. According to the special legislation that created the District, no money shall be disbursed by the Treasurer except after a Board audit. Therefore, the Board is required to audit all claims against the District.

Third-party service providers (service providers) should not be allowed direct access to the District's bank accounts. Further, good management practices dictate that an individual independent from the disbursement process should review the payroll reports after payroll processing is complete, but before disbursing the payments.

The Board may establish petty cash funds and authorize petty cash payments in advance of audit. The amount of petty cash should be set by the Board and the petty cash custodian should periodically request reimbursement for the fund by submitting all bills or receipts for purchases made. The Board should audit petty cash reimbursement requests in the same manner as other claims.

The Board needs to improve controls over the District's cash disbursement process. The Board did not audit each claim before payment or provide oversight of disbursements related to the District's line of credit,¹ payroll or petty cash. District officials did not receive and review more than \$200,000 of line of credit invoices before disbursements were made. Additionally, no District official reviewed the processed payroll reports before disbursing payroll checks. Further, two service providers had direct access to the District's bank accounts and withdrew more than \$517,000 for payroll and payroll-related expenditures and monthly fees associated with the District's capital fund-raising campaign. Finally, District officials have not established a secure petty cash process to ensure that more than \$12,300 used to fund petty cash was appropriately accounted for.

As a result of these deficiencies, District officials are unable to determine whether all disbursements are accurately recorded and

¹ New York State Education Law authorizes public libraries to mortgage their property (Education Law Section 226(6)). The legal propriety of a library obtaining a line of credit, not in conjunction with a mortgage, is not within the scope of our audit.

accounted for and there is an increased risk that unauthorized and inappropriate cash disbursements could occur.

Claim Payments

A proper audit of claims includes a thorough review to ensure that each claim is itemized, that each purchase is for a valid and legal purpose and was properly authorized and approved, that the goods or services were received and that the amount to be disbursed agrees with the amount shown on the claim.

Although the Director reviewed and approved the claims and related invoices before check disbursements were paid, the Board did not regularly review or perform an audit of District claims. The Director told us that the Business Manager places most District claims in a folder with checks attached for the Treasurer to sign before the Board meeting. However, there is no evidence to show that the Board reviewed the claims at any time before, during or after the Board meetings.

Due to this deficiency, we examined 52 check disbursements² totaling \$38,821 and found that the Board did not audit and approve any of them. In addition, we identified the following deficiencies with 11 check disbursements totaling \$5,600:

- District officials were unable to provide us with detailed supporting documentation for two disbursements totaling \$2,000. These disbursements included one claim for \$500 for legal services and another claim for \$1,500 for a fund-raising event.
- Two disbursements totaling \$1,625 for insurance were paid from a statement instead of an itemized invoice. Making payments from statements instead of itemized invoices could lead to erroneous duplicate payments.
- Two payments made to the former capital campaign coordinator included mileage reimbursement totaling approximately \$780. There were no mileage logs or other supporting documentation included with these claims.
- Three disbursements for the purchase of digital video disks totaling approximately \$590 were paid to the Director. The Director approved these reimbursement claims, but there was no evidence that the Board authorized these payments.
- One disbursement made to the current capital campaign coordinator (coordinator) included reimbursement for

² See Appendix B for specific methodology used in sample selection

independent contractor's liability insurance of \$425. The agreement between the District and the coordinator required that the coordinator obtain liability insurance at his or her own expense.

- One disbursement for \$180 was paid to the Director's spouse. The documentation attached to this claim was a request for payment indicating the Director's spouse performed 12 hours of exterior painting at the Library for \$15 per hour. The Director's spouse did not sign the request form and the Director's signature was the only approval for this payment.

Without Board approval, there is an increased risk that the District could pay for unauthorized and unnecessary goods and services or that errors or irregularities could occur and remain undetected.

Line of Credit

The District received a \$500,000 grant from the Dormitory Authority of the State of New York (DASNY) in November 2012 to pay for the purchase of land and architectural fees related to a new building project. The Board established a line of credit with a bank to facilitate making grant required purchases before receiving reimbursements from DASNY.

Because DASNY required the District to pay for grant expenditures before being reimbursed, the Director submitted project invoices directly to the bank and the bank issued checks to pay the architectural fees. The Director and Business Manager completed the necessary paperwork to receive DASNY grant reimbursements and the Board President and Board Secretary signed this paperwork, which indicated the amounts the District should be reimbursed, after the checks were issued by the bank. However, the Director did not provide the Board with any invoices the bank paid with the line of credit.

There were 12 line of credit disbursements totaling approximately \$202,000. Ten of these disbursements totaling \$200,500 were paid directly by the bank during our audit period but were not recorded in the District's accounting system.³

Without Board approval for line of credit transactions, there is an increased risk that District officials could pay for unnecessary goods and services or that errors or irregularities could occur and remain undetected. Additionally, when financial transactions are not recorded, inappropriate activity may be concealed and the Board is prevented from having accurate information to monitor District operations.

³ We reviewed the disbursements in the Director's DASNY folder, traced amounts from paperwork to bank statements and verified that the payments were all made to the architectural firm on record.

Direct Bank Account Withdrawals

As a good business practice, service providers should not be allowed to withdraw funds directly from the District's bank account. Further, there is no authority allowing a library district to delegate the custody and disbursement functions to a private entity. Both GML and New York State Banking Law allow library districts to contract with banks to deposit payroll money and subsequently disburse such funds. However, there is no similar authority for contracts with other private firms for depositing and disbursing payroll funds or with any other authority that would permit a private firm to access library district accounts and transfer money to the firm's own account for payroll.

Effective internal controls over payroll processing consist of written policies and procedures that describe responsibilities for preparing and disbursing payroll and written Board authorization approving salaries and fringe benefits. Monthly bank reconciliations, which include bank statements and canceled checks, should be reviewed by an individual independent of the cash disbursement function. Additionally, payroll reports should be reviewed before payroll checks are distributed, to detect any errors made during processing.

Through a contract with MYLS, District officials used the services of a payroll processor to perform the District's payroll function and paid payroll service fees to MYLS. However, the payroll processor issued the District's payroll checks from its own bank account and the Treasurer did not sign the payroll checks. The payroll processor also directly accessed the District's main operating account to withdraw payroll expenditures on a biweekly basis and withdrew approximately \$516,000 during our audit period. District officials did not review the payroll registers after payroll was processed and before these funds were withdrawn.

District officials contracted with another service provider to accept donations, on the District's behalf, for a new capital building project. Donations were placed directly in the District's capital project bank account and the District was charged fees, which the service provider directly withdrew each month based on the volume of donations processed. The Board did not approve the 24 withdrawals totaling approximately \$1,434 made directly from the District's capital bank account during our audit period.

We were able to trace all these withdrawals to invoices, payroll summaries or deposits into other District bank accounts. However, because District officials did not review payroll registers or donation fee invoices, there is an increased risk that the District could inaccurately pay employees, could be charged erroneous campaign contribution fees and errors or irregularities could occur and remain undetected.

Petty Cash

A governing board may generally establish a petty cash fund and authorize petty cash payments in advance of audit. Most petty cash payments involve small amounts required for infrequent purchases such as office supplies. The amount of cash kept in the petty cash fund should be authorized at the lowest amount practical. Further, the governing board should assign custody of petty cash to one employee.

The petty cash custodian should handle all petty cash transactions and the money should be secured in a locked location separate from all other cash drawers. Additionally, the petty cash custodian should periodically request reimbursement for the fund by submitting all bills or receipts for purchases made from petty cash. Finally, the Board should audit the petty cash reimbursement requests in the same manner as other claims.

Library officials disbursed \$12,347 through petty cash during the audit period. The District used money collected from library fines and fees for the petty cash fund rather than establishing and controlling a fixed dollar amount for the fund. Additionally, the Board has not approved a petty cash policy or assigned one individual as the petty cash custodian. Further, petty cash reimbursement requests were not approved by the Board or presented to the Treasurer for review when he processed other disbursements.

The Director, Assistant Director, Director's secretary and Business Manager all have access to the petty cash fund. While the Director or Assistant Director approved all disbursements made from petty cash, the Board did not audit and approve any petty cash reimbursement claims. This resulted in poor controls and diminished accountability over petty cash, because no audit trail existed to be able to trace the initial petty cash collection records to bank deposits.⁴

We examined 43 petty cash disbursements totaling \$3,568 and found the following deficiencies:

- Seven petty cash disbursements totaling \$843 were reimbursements to the Director that had no approval other than her initials on the reimbursement forms. These purchases were for digital video disks from a national book seller and refreshments for a Library related function.

⁴ Library staff members who collect money at the circulation desk record receipts in a manual daily receipts log. However, the logs are not reconciled with the cash collected for the day and the logs are generally not retained. Additionally, when money is removed from the cash drawer, it is locked in the office and available for use as petty cash instead of being promptly deposited in the bank.

- Thirteen petty cash disbursements totaling \$697 were for part-time substitute library staff wages. Seven of these disbursements totaling \$225 had no time sheets attached to the petty cash reimbursement forms. Because these payments were not made through payroll, appropriate payroll taxes were not withheld and the payments were not reported as wages or income to the New York State Department of Taxation and Finance or the Internal Revenue Service (IRS). Failure to withhold and report payroll taxes to the State and the IRS could subject the District to unnecessary interest and penalty costs.
- Three petty cash disbursements totaling \$328 did not have attached invoices although there were petty cash request forms. According to District officials, these disbursements were for the children’s library section entertainment, a band to perform at the Library and a reimbursement to the Director’s secretary for cookie trays purchased for the Board meeting.

Without the Board being involved in approving petty cash transactions, there is an increased risk that the District could pay for unnecessary goods and services or that errors or irregularities could occur and remain undetected.

Recommendations

The Board should:

1. Establish procedures to ensure that all disbursements are:
 - Made by the Treasurer or Deputy Treasurer from District bank accounts.
 - Audited and approved by the Board before disbursement.
 - Documented in the accounting system on a regular basis.
2. Require that the Director review and certify payroll reports.
3. Discontinue allowing private service providers access to the District’s bank accounts.
4. Ensure that salary and wage payments to employees are compensated through payroll and that applicable payroll taxes are properly withheld and reported.
5. Discontinue using Library fines and fees for petty cash disbursements and establish a fixed dollar amount for the petty cash fund.

6. Establish a petty cash policy that:

- Limits the type of expenditures that can be made with petty cash.
- Appoints one individual as petty cash custodian.
- Requires that the Board approves all petty cash reimbursement claims.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Oneida Public Library
Where the community connects

April 30, 2015

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
Syracuse Regional Office
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

Oneida Public Library (OPL) is in receipt of the Draft Audit Report: Cash Disbursements, for the period July 1, 2012-June 30, 2014. We appreciate the guidance of the State Comptroller regarding OPL's policies and procedures for processing cash disbursements and agree substantially with the findings and recommended improvements.

OPL undergoes annual financial audits conducted by an independent Certified Public Accounting Firm. Our current internal controls include segregation of incompatible duties such as general ledger bookkeeping, disbursement approval, check signing and independent review of bank reconciliations which have satisfied our auditors. We believe these procedures have safeguarded public funds. We do agree, however, that some changes to our controls would reduce risk of loss and provide additional assurance that funds are properly expended. As stewards of public funds we are committed to the highest level of control achievable within the constraints of our limited funding.

We would like to thank the Office of the New York State Comptroller for conducting the audit and making its recommendations. The Board shares the priority of providing fiscal responsibility for the oversight of and expenditure of public funds and appreciates your guidance in obtaining this goal.

Sincerely,

Patricia Albaugh
President, Board of Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine cash disbursements for the period July 1, 2012 through June 30, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Board members, District officials and library staff to gain an understanding of internal controls and processes for cash disbursements.
- We reviewed 52 disbursements to determine if the Board audited and approved any of these payments and whether the payments were made to individuals or vendors that did not appear to be for library purposes. We used a random number generator to select two months (January and December 2013) during our audit period, which included 44 disbursements. We also reviewed an additional eight disbursements paid during our audit period that included any disbursements totaling more than \$99 paid to the Director, Board members or the Business Manager or payments to individuals or vendors that we considered higher risk, such as payments to a District official's spouse.
- We reviewed all 12 disbursements as listed on the line of credit history reports during the audit period. We documented if any of these disbursements were made to vendors directly from the District's bank by comparing the information on file at the District with the amounts reported on the DASNY bank statements. We also reviewed these disbursements to determine whether they were for legitimate District purposes, supported by itemized invoices and properly approved and reviewed by the Board before being disbursed.
- We reviewed all direct withdrawals made from District bank accounts during our audit period and traced them to invoices, payroll summaries or deposits into other bank accounts.
- We reviewed 43 petty cash disbursements from two randomly selected months (January and December 2013) during our audit period to determine if the Board audited and approved these payments and if any of them were made to individuals or vendors that did not appear to be for library purposes. Our sample comprised 19 petty cash disbursements paid during these two months and an additional 24 higher risk petty cash disbursements. These higher risk disbursements included all payments totaling more than \$99 made to the Director, Assistant Director, Board members, the Director's secretary, the Business Manager or library staff.

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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