



Oswego School District Public Library

Selected Cash Receipts

Report of Examination

Period Covered:

July 1, 2012 — August 31, 2013

2013M-397



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Oswego School District Public Library, entitled Selected Cash Receipts. 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*

Introduction

Background

The Oswego School District Public Library (Library) is located in the City of Oswego. The Library is part of the North Country Public Library System (NCLS). The Library was a Free Association Library until April 2000, when it was incorporated as the Oswego School District Public Library. The Library is governed by a seven-member Board of Trustees (Board) who are elected by Oswego City School District (District) residents. The Library Director, appointed by the Board, is responsible for day-to-day operations.

The Library's operating expenditures were approximately \$1.2 million for the fiscal year ending June 30, 2013. The District collects property taxes and pays them to the Library in installments. The Board appoints one of its members to serve as the Library's Chief Fiscal Officer and appoints a Treasurer, who is considered a non-voting member of the Board. Library fines and fees are collected by Library staff.

Objective

The objective of our audit was to review the Library's tax receipts and over-the-counter cash receipts processes. Our audit addressed the following related question:

- Did the Board develop and implement adequate internal controls over tax receipts and over-the-counter cash receipts?

Scope and Methodology

We examined the Board's oversight of the Library's procedures for tax receipts and over-the-counter cash receipt collections for the period July 1, 2012 through August 31, 2013; for tax receipts we expanded our scope back to the 2009-10 fiscal year.

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 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 recommendations and indicated they planned to take 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 Board to make this plan available for public review in the Library's main office.

Tax and Cash Receipts

The Board is responsible for establishing adequate internal controls to properly safeguard the Library's cash assets. An effective system of internal controls over tax receipts and over-the-counter cash receipts helps ensure that all moneys received by the Library are receipted, recorded, deposited and accounted for properly. In order to safeguard the Library's cash receipts, Library officials should implement procedures to ensure individual accountability over the receipt of cash.

The Library has collected approximately \$1 million each year in taxes from District taxpayers during the last four completed fiscal years. The Library collected about \$13,084 during the 2013 fiscal year from charges, fines and fees. The Board has not established policies and procedures to ensure adequate internal controls over the cash receipt process for taxes or over-the-counter cash receipts.

Tax Receipts

An effective system of controls over tax receipts ensures that all tax moneys collected by the District and approved by the voters are received by the Library and when received are properly accounted for and recorded. There is no authority for the District to charge back any portion of a tax certiorari refund to the Library.¹

The Library's annual budgeted property tax levy is voted on and approved by the Board. Whenever there is a change in the annual amount of tax revenue being requested by the Library, the amount must be included as a separate proposition during the District's budget vote, so residents are informed of the change. The Library's property taxes are collected by the District and paid to the Library in monthly installments. As part of the 2006 building project bond payment agreement among the Library, the County of Oswego Industrial Development Agency (IDA), the District and a local bank (fiscal agent), all tax payments made by the District to the Library are required to be wired to an investment account at the fiscal agent which was created for the bond payments. The money needed to make the annual bond payments for that fiscal year is kept by the fiscal agent and the balance is wired to the Library's operating savings account at a separate bank.²

¹ A tax certiorari is the legal process by which a property owner can challenge the real estate tax assessment on a given property in attempt to reduce the property's assessment and real estate taxes.

² We express no view as to the propriety of either the Library's use of IDA financing or the provisions of the bond payment agreement because these matters are outside the scope of the audit.

The District's annual tax bills are due in two separate installments; one is due in October and the second is due in February. The District is currently sending tax revenue monthly to the fiscal agent from November to March during the tax collection period based upon the amount it has collected for the Library tax. After the regular tax collection period is over, the District divides the remaining amount of tax revenue that is owed to the Library and pays this remaining money in ten equal installments, from April in the fiscal year that the tax revenue is for, until January of the next fiscal year.³ Therefore, the tax payments sent by the District in November, December and January each year include tax revenue for the current and previous fiscal years.⁴

Library personnel record the tax payments as they are received from the District. However, they do not maintain a record of taxes received by fiscal year and they have no process in place to ensure the Library received the full amount of real property taxes levied for the Library each year. In reviewing the Library's accounting records for the last four completed fiscal years, we determined that the amounts transmitted to the Library by the District were \$3,500 in 2010-11, \$880 in 2011-12 and \$46,500 (or 4.26 percent) in 2012-13 less than the voter-approved tax levies. We discovered that the District has been reducing the amount of money paid to the Library when there are refunds in property assessments due to tax certiorari judgments. However, there is no authority for a school district to charge back any portion of a tax certiorari refund to a school district public Library.⁵ If the Board had implemented procedures that established controls over receipt and recording of tax revenues, such as the Fiscal Officer or Treasurer using a control account⁶ to reconcile budgeted tax revenue to what they have received from the District, the Board might have been aware of the tax revenue discrepancies.

Over-the-Counter Cash Receipts

Effective controls over the collection of over-the-counter cash receipts, such as patron fines and fees, include procedures to ensure individual accountability. The risk of errors or irregularities is reduced, for example, when each employee who collects money has his or her own cash drawer and/or must enter a unique password into a system

³ The Library's fiscal year runs from July 1 to June 30.

⁴ We express no view as to the propriety of Library taxes imposed for one fiscal year being paid to the Library in the next succeeding fiscal year because the issue is outside the scope of the audit.

⁵ OSC Opinion 95-15

⁶ A control account is a general ledger account used to aggregate all the debit and credit postings to the related subsidiary ledger accounts. In this example, a Taxes Receivable control account would aggregate the amount of payments made by the District to the Library and provide the amount of taxes still owed by the District to the Library at any given point in time.

tracking the cash receipts. On a daily basis, two employees should count the cash collected and compare the total to the accountability system.⁷ Cash should be deposited in the bank in a timely matter.

The Board has not established adequate internal controls for over-the-counter receipts. The Library does not have procedures in place to record all receipts at the time of collection and there are no procedures to ensure individual accountability.

Payment is collected over-the-counter for late item fees, lost item fees, damaged item fees, lost card fees, used book sales and fax, copy and printing fees. Over-the-counter cash is collected at the main floor desk by the library entrance and also at the children's desk on the upper floor. As many as four employees may work each collection desk during a day. When cash is collected it is placed in a cash box behind each collection counter.

The Library uses a circulation system that is administered by NCLS, which tracks patron late fees, lost item fees, lost card fees and damaged item fees. All Library staff use the same user name and password to log onto the circulation system. When patrons are in the Library to check out items, Library staff will collect these fees from the patrons if owed, and enter the amount of money collected into the circulation system and place the money in the cash drawer. The circulation system will produce a receipt that is given to the patron. When patrons use the fax machine, make copies or print from any of the Library computers, fees are charged and money is collected by the staff, but the amounts are not recorded into the circulation system.⁸ Moneys collected for the sale of used books are also not recorded in the circulation system. Library officials do not use a cash register or keep a manual collection log for any transactions that are not entered into the circulation system. They simply collect the money and place it in the cash drawer or an envelope.⁹ Staff issue duplicate cash receipts for these transactions only upon request.

Collections are locked up at the end of each day and counted by a Library employee the following morning. The Library employee

⁷ An accountability system may be automated, such as a cash register, or handwritten, such as a duplicate receipt book. It is used to provide accountability over cash received from customers. If working properly, a daily total of receipts can be calculated from the accountability system in place and compared to the cash count of the drawer.

⁸ If a patron does not have money to pay for fax, copy or printing fees at the time the service is received, Library staff will add a fee to the patron's account in the circulation system.

⁹ Moneys collected for lost items and the sale of used books are placed in separate envelopes when the money is received so the Library can record these revenues separately in the accounting records.

prepares separate collection tickets to summarize the total daily receipts for lost items, used book sales and all other collections. The money is then taken to the account clerk typist who recounts the money and places it in a safe in her office until a deposit is made. The money is prepared for deposit by another Library employee who counts it and compares the amount to the collection tickets and takes the deposits to the bank. After the deposits have been made at the bank, the account clerk typist will record the deposits in the Library's accounting software.

Because Library staff share common cash boxes and they are not required to issue duplicate receipts consistently or to record all receipts at the time of collection, the Library's cash receipt process is missing crucial segments of an audit trail that would allow Library officials to ensure that all moneys originally collected were properly recorded and deposited intact.¹⁰ If it is not practical to use cash registers or issue duplicate receipts for all collections, then at a minimum, Library staff should be required to manually log all individual cash receipts at the time of collection so the cash on hand can be compared with the cash receipt log as part of the daily cash-out. As an alternative, the Library could require staff to record all receipts in the circulation system, which can produce a daily cash report that can be compared to the cash on hand each day.

Additionally, we found that cash receipts were not deposited in a timely manner. We were told that deposits are usually made every two weeks. However, we determined that since February 2013, deposits were made once a month. Some of these monthly deposits, which are composed mostly of cash, were over \$1,000. When receipts are not deposited in a timely manner, there is an increased risk that moneys could be lost, stolen or misused.

Recommendations

1. The Board should implement procedures that establish controls over receiving and recording of tax revenues to ensure that all real property taxes are received. The Library Fiscal Officer or Treasurer should periodically reconcile tax receipts to the budgeted tax levy for each fiscal year.
2. Library officials should confer with their legal counsel regarding the recovery of tax revenue withheld by the District for tax certiorari refunds.
3. The Board should implement policies and procedures to account for all over-the-counter cash receipt collections, including:

¹⁰ Intact means in the same amount and form (cash or check) as received.

- The Board and Library officials establishing controls at cash collection points for greater accountability, such as instituting the use of individually assigned cash drawers, requiring the use of duplicate receipts or cash receipt logs to document all collections or using the circulation system to track the receipts collected by each staff member.
- The Chief Fiscal Officer ensuring that all receipts are deposited in the bank in a timely manner.
- The Chief Fiscal Officer/Treasurer periodically reconciling over-the-counter cash receipts to the accountability system that is established.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



Oswego School District Public Library

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March 11, 2014

Rebecca Wilcox, Chief Examiner
Syracuse Regional Office
State Office Building, Room 409
333 E Washington Street
Syracuse, NY 13202-1428

Re: Oswego School District Public Library 2013M-397

Dear Ms. Wilcox,

We are in receipt of the draft report of examination. We are in the process of implementing the recommendations that are on the report. We will be detailing our implementation in the Corrective Action Plan.

Sincerely,

Mercedes Niess
President of the Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to assess the financial operations of the Library. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: general governance, Board oversight and financial condition, cash receipts and disbursements, purchasing, payroll and information technology.

During the initial assessment, we interviewed appropriate Library officials and employees, performed limited tests of transactions and reviewed pertinent documents, such as policies, procedures, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Library's financial transactions as recorded in its databases. Further, we reviewed the Library's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined that the controls appeared to be adequate and that limited risk existed for most of the financial areas we reviewed. We then decided upon the reported objective and scope for the area with the greatest risk.

We examined tax receipts and over-the-counter receipts for the period of July 1, 2012, to August 31, 2013. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We interviewed Library officials and employees to gain an understanding of the internal controls over tax receipts.
- We interviewed the District Treasurer and tax collector regarding their involvement in collecting the Library taxes and making payments to the Library.
- We compared the voter-approved tax levy to the tax warrants and payment schedule sent to us by the District to determine if the taxes have been properly distributed to the Library for the last four completed fiscal years.
- We compared the payments made to the Library from the District to the revenue recorded in the annual CPA reports.
- We traced the tax revenue code in the accounting system to electronic deposits made in the IDA Library Project bank account and traced any transfers to the Library's operating fund bank accounts to verify that all tax receipts have been properly recorded.
- We compared the deposits into the IDA Library Project bank account to the payment schedule sent by the District Treasurer.

- We interviewed Library officials and employees to gain an understanding of the internal controls of over-the-counter cash receipts.
- We also interviewed the NCLS employee in charge of the automated Library circulation system regarding the system's ability to track over-the-counter cash receipts.
- We analyzed total over-the-counter cash revenues for the last four completed fiscal years for any trends.
- We used a random number generator to select the test month of February 2013 and traced over-the-counter cash receipts from the cash collection tickets to the deposit slip, the bank statement and then to the entry in the Library's accounting system reports.
- We compared the cash collected to the data entered into the Library circulation system for the test month of February 2013.
- We compared over-the-counter cash recorded in Library's accounting system to what Library employees entered in the Library circulation system for the entire audit period.

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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