



Johnstown Public Library Cash Receipts

Report of Examination

Period Covered:

January 1, 2013 — May 31, 2014

2014M-304



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Johnstown Public Library, entitled 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 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 Johnstown Public Library (Library) is part of the Mohawk Valley Library System, is located in the City of Johnstown (City) and serves approximately 17,050 residents in the City and surrounding Fulton County area. The Library is a Municipal Public Library and is governed by a fifteen-member Board of Trustees (Board) that is appointed by the City Mayor. The Board is responsible for the general management and control of the Library's financial affairs. The Board-appointed Library Director (Director) is responsible for the Library's day-to-day administration. The Treasurer, per the by-laws, is a Board member and is responsible for the collection and deposit of money. The Treasurer is also responsible for presenting an annual and monthly report to the Board showing income and disbursements for all accounts. The Director and Library staff assist the Treasurer in the collection of fines, fees, donations and fundraising. The Budget and Finance Committee (Committee)¹ is appointed by the Board President and is responsible for providing oversight of all Library finances and funds.

The Library's budgeted appropriations were approximately \$405,000 for the fiscal year ending December 31, 2014. The Library is funded primarily through an annual payment from the City.² In addition, the Library receives funding from the Towns of Johnstown and Caroga,³ donations, fines, fees, fund raising and earnings from investments.

Objective

The objective of our audit was to evaluate the internal controls over the Library's cash assets. Our audit addressed the following related question:

- Were cash receipts properly recorded and deposited timely and intact to ensure that library assets were adequately safeguarded?

Scope and Methodology

We examined the processes over the recording, security and depositing of cash receipts of the Library for the period January 1, 2013 through May 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 is included in Appendix C of this report.

¹ Consisting of seven Board members

² The 2014 City budgeted allocation to the Library was \$287,000.

³ The 2014 Town of Johnstown allocation was \$14,000 and the Town of Caroga allocation was \$2,500.

**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 letter.

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 Director's office.

Cash Receipts

The Board and Library officials are responsible for ensuring that all moneys are properly collected, safeguarded, deposited and accounted for. It is important to have effective policies and procedures to ensure that cash records provide sufficient detail to identify each transaction. A press numbered receipt should be issued for all moneys collected that are not recorded in the computerized circulation system or included on a manual collection log. Deposit slips that identify the composition of cash and the individual checks being deposited should be prepared and all collections must be deposited timely and intact⁴ to help prevent potential errors or misuse of cash. Cash and checks, along with the deposit slip, should be kept in a locked bank bag to prevent theft or alteration of the deposit slip. In addition, the Committee, per the Library's by-laws, has the responsibility of auditing revenues monthly as presented to the Board in the Treasurer's monthly report.⁵

We were unable to determine if all collections were recorded and deposited in a timely manner and intact. This was because Library officials have not established formal policies or procedures for handling and recording cash receipts. As a result, the Library did not always ensure that adequate documentation was maintained to verify that all collections were recorded and deposits were made timely and intact. In addition, the Committee did not audit monthly revenues to confirm that moneys were accounted for.

During our audit period, the Library made 74 deposits totaling more than \$78,000 for collections from fines, fees, donations and fund raisers collected at the Library's front desk⁶ or by the Director. The Library uses a circulation system that is administered by the Mohawk Valley Library System, which tracks patron late fees, lost items fees, lost card fees and damaged item fees. According to the Director, while each Library staff member is assigned a unique user ID and password, they often use a shared username and password

⁴ Intact means in the same amount and form (cash or check) as received.

⁵ This audit should include a comparison of receipts reported on the Treasurer's monthly report to detailed cash receipts records, deposit slips and bank statements to ensure that all collections were recorded and deposited in a timely manner and intact.

⁶ Money not received in the mail is collected at the Library's front desk where all library transactions, including checking out books, paying fines and fees and collection of raffle ticket and admissions to fund raisers in advance of the events, are collected. Large donations and checks received in the mail are opened by the Director and are not handled by the Library's front desk employees.

to log on to the circulation system. When patrons are in the Library to check out items, Library staff will collect fees from the patrons, if owed, and enter the amount of money collected in the circulation system and place the money in the cash drawer. However, collections for printing and copying fees, donations and fundraising, which are also placed in the cash drawer, are not recorded in the system. Library officials do not use a cash register, maintain a log, issue duplicate receipts or use any other means to document these other sources of collections that are not recorded into the circulation system. Further, the Director does not generate a daily cash report from the circulation system to assist in reconciling daily collections.

At the end of the day, the staff on duty remove the cash collections from the cash drawer and place the collections into a money pouch and then place the pouch into a cabinet in the staff room, all of which are unlocked. All employees and patrons have access to the staff room and, therefore, to the unlocked cabinet; thus, the collections are not adequately secured and are at a high risk of theft. The Library officials told us that they have followed this practice for more than 30 years and had not considered the risks of keeping cash in an unsecured location. The following morning, two staff on duty count the collections and record the amount on a weekly log. After counting the cash, the collections are put in a money pouch and placed in a safe located in a locked room. Access to the safe is limited to the Director and three senior staff members. At the end of the month, a senior staff member prepares the deposit slip and places the deposit slip and collections in the money pouch and gives it to the Director for deposit or placed back into the safe. The bank deposit is made by the Director or a senior staff member before each monthly Board meeting. The Treasurer records all deposits made in the accounting records.

The Director primarily collects donations for the endowment fund, which includes checks received in the mail, memorials and sponsorships for the Johnstown Classic mini-golf fundraiser. The Director maintains a list of the checks received on which she records each donor's name, address and the amount received for the purpose of preparing thank-you letters. The list does not include the date of receipt, nor is it used to reconcile collections to deposits. The checks are kept in the locked safe until the end of the month when a senior staff member prepares the receipt report for the audit committee. The deposit slip is then prepared by either the Treasurer or the Director and the collections are deposited by the Treasurer after the monthly Board meeting.

Because Library staff share a common cash box at the Library's front desk and they are not required to issue duplicate receipts 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 collected were properly recorded in the system and deposited timely and intact. If it is not practical to use a cash register or issue duplicate receipts when applicable for collections, 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. Similarly, collections received by the Director should be recorded when received and compared to checks on hand prior to deposit.

We reviewed 28 deposits made between January 1, 2013 and May 31, 2014, which totaled \$24,888⁷ or approximately 32 percent of all deposits made for front desk collections and collections received by the Director,⁸ and found that various collections were not deposited in a timely manner. We examined deposit slips; weekly logs of fines and fees collected; monthly Treasurer and Committee reports by fund, which included opening bank balances, receipts collected, disbursements made and ending bank balances; bank statements; donation/memorial logs and fund raiser analyses prepared by the Treasurer to determine if these deposits were made in a timely manner. Due to the lack of detailed collection records and itemized⁹ deposit slips, we could not determine if deposits were made intact; however, we determined that deposits for fines, fees and donations were made only once a month.¹⁰ These monthly deposits ranged from nearly \$400 to approximately \$2,900. When receipts are not deposited frequently, there is an increased risk that moneys could be lost, stolen or misused, and the funds are not available to fund Library operations.

The Director and five Board members that we interviewed told us that they were not aware of the need for policies for the handling and recording of cash receipts. Further, a Board member that is also a member of the Committee told us that they do not review or audit monthly cash receipts records. The lack of formal, Board-established policies and procedures to ensure that collections are adequately accounted for and deposited in a timely manner has resulted in internal control deficiencies over the Library's cash assets.

⁷ Including 12 deposits totaling \$9,739 for front desk collections and 16 deposits totaling \$15,148 for collection received by the Director

⁸ We reviewed deposits made during eight selected months. Two were judgmentally selected (February and March 2013) and the remaining six months were randomly selected (January, July and December 2013 and February, March and May 2014).

⁹ The Library's deposit slips were not consistently itemized to identify the composition between cash and individual checks deposited. Lack of proper itemization makes it difficult to determine if collections were deposited in the same form as collected.

¹⁰ We observed that the collections from the annual fundraising event were deposited more frequently (one to three times a month).

Recommendations

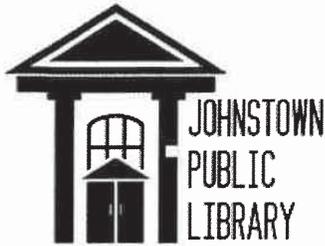
The Board should implement policies and procedures to account for all cash receipt collections, including:

1. 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 and requiring staff to log in under their own user accounts to track the receipts collected by each staff member.
2. Requiring that the Director generate a daily cash report from the circulation system and reconcile collections daily.
3. Establishing procedures to ensure that cash and checks are stored in a secure location until deposit, including the use of locked bank bags.
4. Requiring the Director to include the date received when recording checks received and reconcile the collections to the deposits.
5. Requiring that the Treasurer ensure that all receipts are deposited in the bank in a timely manner.
6. Requiring that the Committee perform an audit or review of cash receipts on a monthly basis.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

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



38 S Market St
Johnstown NY 12095
(518) 762 8317

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls NY 12801

January 28, 2015

Johnstown Public Library
Cash Receipts
2014M-304

Dear [REDACTED]:

On behalf of the Board of Trustees of the Johnstown Public Library, please accept this letter as our consolidated response and Corrective Action Plan to the findings and recommendations of the draft Report of Examination concerning cash receipts for the period January 31, 2013 to May 31, 2014.

We would like to thank you and your staff for the diligence and time spent conducting this audit. 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. We agree with the audit findings that the safeguarding of library assets can be improved with clear and effective policies and procedures, and will use the audit findings and recommendations to improve the library's internal controls of and practices dealing with cash receipts. Our direct response to each recommendation is detailed in the CAP below.

The Library Director and staff have already made many changes to prior practice as a result of oral recommendations received during the site visit. In addition to the plans of action detailed below, the Board of Trustees will adopt a policy for the handling and recording of cash receipts to outline these practices.

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.



38 S Market St
Johnstown NY 12095
(518) 762 8317

Audit Recommendation

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 and requiring staff to log-in under their own user account to track the receipts collected by each staff member.

Implementation Plan of Action The circulation desk of the library is not the equivalent of a retail check-out counter. Patrons are attended to on a first-come, first-served basis; while there are two circulation staff members at all times and two circulation computers, the staff members use the computers interchangeably to best serve library patrons. Additionally, at especially busy times, off desk staff members will come up to assist patrons in the checkout process or address their circulation issues.

See
Note 1
Page 13

Because circulation does not singularly happen at a fixed point of service, implementing the use of a cash register or individually assigned cash drawers, or requiring each staff member on circulation duty to log in to the [REDACTED] under their own account, would not only be impractical for fluid flow of work but also bog down service to patrons, upon which the library prides itself. Duplicate cash receipts would also be impractical because of the amount of time required to complete the practice. The director's manual log is completed solely by the director, and the manual cash log and daily money tally sheets described below will be initialed by staff members, but beyond these two measures, there will be no plan of action implemented to address this recommendation.

Implementation Date n/a

Person Responsible for Implementation n/a

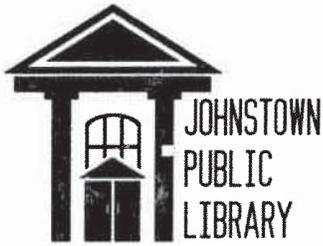
Audit Recommendation

Requiring that the Director generate a daily cash report from the circulation system and reconcile collections daily.

Implementation Plan of Action Two staff members will count and record fine money after closing each day. The staff members will initial the total and store the money in a pouch in a locked filing cabinet overnight. The following morning, the Director will generate a daily "cash drawer" report from the [REDACTED], which will include fees for charged copies and print jobs, damaged materials, manual fines, new library cards, overdue items, postage and replacement costs, and will use this cash drawer report as well as a daily report issued by the [REDACTED] computer management software detailing the number of public print jobs and a new manual log tracking additional monies collected for reconciliation purposes each morning. If the Director is not available to do so, the Senior Library Clerk will complete the task.

Implementation Date March 2015, or as soon as possible. The cash drawer report needs to be set up by Joint Automation Council Staff, and so this is dependent upon the speed with which they can do so.

Person Responsible for Implementation Library Director



38 S Market St
Johnstown NY 12095
(518) 762 8317

Audit Recommendation

Establish procedures to ensure that cash and checks are stored in a secure location until deposit, including the use of locked bank bags.

Implementation Plan of Action Cash and checks collected as fines are stored in a locked drawer at the library's circulation desk during working hours. At the end of the day, all monies collected are put in a pouch and stored in a locked filing cabinet in the staff room overnight. The Director or a senior staff member transfer the money into a pouch in the safe (located in a locked room) the following morning. Checks and cash received by the Director as donations or other income are documented and stored in a separate pouch in the safe.

Implementation Date These practices began on July 1st, 2014, during the OSC examiners' visit.

Person Responsible for Implementation Library Director and Library Staff

Audit Recommendation

Requiring the Director to include the date received when recording checks received, and reconcile the collections to the deposits.

Implementation Plan of Action All checks and cash received by the Director (income not including fines) are entered into a manual log. The donor's contact information, the amount of the donation, and date received are included in this log. For reconciliation purposes, a copy of this monthly log will be included in the Finance Committee's monthly audit of income.

Implementation Date The date income is received is now included on the Director's manual log; this practice began on July 1st, 2014, during the OSC examiners' site visit. The monthly log will be included in the monthly audit of income beginning in February 2015.

Person Responsible for Implementation Library Director

Audit Recommendation

Requiring that the Treasurer ensure that all receipts are deposited in the bank in a timely manner.

Implementation Plan of Action The Treasurer, Director, or a senior staff member will deposit receipts twice per month, except during the time immediately prior to the fundraiser, during which deposits will continue to be made at least on a weekly basis. Because of time required to prepare and make deposits, it is not feasible to make more frequent deposits.

Implementation Date February 2015

Person Responsible for Implementation Treasurer



38 S Market St
Johnstown NY 12095
(518) 762 8317

Audit Recommendation

The Budget and Finance Committee will perform an audit or review of cash receipts on a monthly basis.

Implementation Plan of Action The Finance Committee's monthly review of cash receipts will now include copies of the Director's dated manual log and the cash reports detailed in the plan of action for recommendation #2, for reconciliation purposes.

Implementation Date Because the Finance Committee audits the prior month's reports, this will be implemented in March 2015, using reports generated for February 2015 cash receipts.

Person Responsible for Implementation Library Director, Finance Committee auditors

This plan was approved by the Johnstown Public Library Board of Trustees at its January, 27, 2015 meeting.

Sincerely,

Shannon Kline
President, Library Board of Trustees

APPENDIX B

OSC COMMENT ON THE LIBRARY OFFICIALS' RESPONSE

Note 1

The establishment of adequate internal controls is always applicable when cash is being collected, regardless of whether collections are occurring at a library or a retail type setting, and whether few or many collections are being processed at any given time. Furthermore, as indicated in the response, there are instances when off-desk staff members will assist patrons at especially busy times. The use of additional staff to process collections only increases the risks associated with cash collections and makes the implementation of effective controls even more imperative to ensure that library money is adequately accounted for and safeguarded.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to evaluate the safeguarding of cash receipts and to determine that those receipts collected were deposited in a timely manner and intact. 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. During our initial assessment, we interviewed Library officials, performed limited tests of transactions and reviewed pertinent documents, such as Library policies and procedures, Board minutes and cash receipt and deposit documentation.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those areas most at risk. We determined that risk existed within cash receipts. Therefore, we examined the internal controls over cash receipts and performed tests to determine if adequate support existed to determine if cash receipts were deposited in a timely and accurate manner for the period January 1, 2013 through May 31, 2014.

To accomplish the objective of this audit and obtain valid and relevant audit evidence, our procedures included the following:

- We assessed relevant policies and procedures to determine whether they were adequate.
- We evaluated the adequacy of support documentation for deposits to determine if deposits were made timely and intact.
- We observed locations where checks and cash were kept until deposit to determine if the location was secure.
- We documented the Board's and management's reasons and explanations of Board members' and management's lack of involvement in establishing, maintaining and monitoring the cash receipt policies and procedures.

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.

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