



Tompkins County Public Library Financial Management

Report of Examination

Period Covered:

January 1, 2014 – May 31, 2015

2015M-250



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 Library 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 Tompkins County 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 recommendation 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 Tompkins County Public Library (Library) serves approximately 101,560 residents. The Library is the central library¹ for the Finger Lakes Library System and serves libraries and users in Tompkins, Tioga, Cortland, Seneca and Cayuga Counties. The Library is a core community service, which provides free and open access to services, resources and programs that foster literacy, cultural appreciation, personal growth and community connections to approximately 47,000 registered borrowers.

The Library is governed by a 15-member Board of Trustees (Board). The Board is responsible for approving the Library's annual budget and monitoring its fiscal affairs. The Director is the administrative officer responsible for the Library's day-to-day operations and initial budget development. The Treasurer is responsible for accounting for Library receipts and expenditures and reviewing and signing all vouchers for disbursements within the budgetary limits. The Library employs a business manager who is responsible for maintaining the accounting records.

The Library's 2015 budgeted appropriations totaled \$4 million. The Library is dependent on Tompkins County (County), which provides 77 percent of the funding necessary to sustain Library operations. The Library receives additional funding from the City and Town of Ithaca, library fees, State aid and private organizations. In addition, the New York State Education Department (SED) requires the Library to remain open for 60 hours each week because it serves a population of more than 100,000 residents. SED granted the Library a waiver in 2014 for this requirement to give Library officials time to develop a plan and implement the necessary hours. During September 2015, officials realigned staff schedules to meet this requirement, with additional operating costs of \$41,000 in 2015.

Objective

The objective of our audit was to examine the Library's financial condition and internal controls over Library operations. Our audit addressed the following related question:

- Did Library officials provide adequate financial management?

Scope and Methodology

We examined the Library's financial condition and reviewed internal controls over operations for the period January 1, 2014 through May 31, 2015.

¹ As a central library, the Library houses the catalogs, books, magazines and multimedia materials and serves as the major reference center for all 33 libraries in the Finger Lakes Library System.

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 B 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 recommendation 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 recommendation 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 recommendation 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 Secretary's office.

Financial Management

Library officials are responsible for making sound financial decisions that balance the level of services desired and expected by patrons with the available revenue sources. Properly managing Library finances includes developing structurally balanced budgets based on historical results and monitoring financial activity and fund balance levels to ensure recurring expenditures are financed with recurring revenues and fund balance is not continually relied upon as a financing source. Officials should also implement internal controls over Library operations to ensure its assets are adequately safeguarded. Such controls include properly segregating duties so one individual does not control all phases of financial operations. When segregating duties is not feasible, compensating controls such as providing additional supervision and oversight should be implemented.

Library officials need to continue to improve the Library's financial management. Although officials established proper internal controls over day-to-day financial operations, they struggled to balance the level of desired and expected services with the operational SED requirements and available revenue sources. Over the last three years, Library officials have not developed structurally balanced budgets because the primary source of revenue comes from the County and officials are unable to increase this funding as necessary. As a result, from 2012 through 2014 the Library experienced operating deficits totaling \$266,000 and fund balance was depleted by 38 percent. If Library officials continue to use fund balance as a financing source, it could have a significant effect on the financing of future budgets and the ability to maintain current service levels.

Financial Condition

The Board is responsible for adopting budgets that are structurally balanced, which include estimates of expenditures for known and necessary purposes that are financed by sufficient recurring revenues. Fund balance, which represents surplus money from prior years' operations, can be used as a financing source. However, to avoid unnecessary future financial stress, these funds should not continually be used to finance operations.

Although Library officials created reasonable budget estimates, they did not adopt structurally balanced budgets that financed recurring expenditures with recurring revenues due to the inability to control the primary revenue source of funding from the County. Annual County funding is determined by County officials based on the amount of funding provided in the prior year along with other factors. As a result, officials needed to rely on using fund balance to help finance

the Library’s increasing expenditures. While the Board monitored the budget against actual financial operating results on a monthly basis, the Library experienced several years of operating deficits because expenditures exceeded revenues, as shown in Figure 1.

Description	2012	2013	2014
Revenues	\$3,143,041	\$3,357,296	\$4,250,676
Expenditures	\$3,306,391	\$3,398,571	\$4,312,107
Operating Deficit	(\$163,350)	(\$41,275)	(\$61,431)

Over the last three years, the Library has received unanticipated revenues from large donations and one-time grants to help fund operations. While the Board planned to use \$652,000 of fund balance from 2012 through 2014 to finance operations, it actually used \$266,000. Total fund balance declined from \$704,000 at the beginning of 2012 to \$438,000 at the end of 2014, which represents a 38 percent decline in total fund balance. The Library will incur another operating deficit of approximately \$134,000 for 2015,² which will further reduce fund balance to \$304,000. The Board also plans to rely on another \$35,000 of fund balance for operations in its 2016 budget.

Although Library and County officials have worked together to develop recommendations to reduce the budget’s structural imbalance, the financial support provided by the County each year is insufficient to fund the Library’s recurring expenditures and Library officials continue to rely on fund balance as a financing source. The County contributed approximately \$3 million to support Library operations in 2015 or 77 percent of its funding, which was insufficient to sustain current service levels.

Library officials told us that in 2013 they reviewed expenditure levels and have reduced staffing levels by 15 percent but are unable to cut these expenditures further without a significant disruption of services.

Continued reliance on fund balance to finance future budgets, without significant adjustments to revenue or expenditure estimates, will eventually exhaust available fund balance and lead to future fiscal issues. In addition, if Library officials do not adequately resolve the structural imbalance of the annual budgets and declining fund balance, community learning programs may also be at risk for termination.

Internal Controls

Library officials have implemented specific internal controls over financial operations, including receipts, disbursements and payroll

² The Library’s results of operations for 2015 are as of December 21, 2015 accounting for the additional anticipated outstanding expenditures for the remaining 10 days of the year.

processing. Due to limited staffing in the business office, officials were unable to properly segregate duties. However, the Board instituted appropriate compensating controls, which included reviewing journal entries, monthly budget-to-actual reports and payroll expenditure reports. In addition, the Treasurer appropriately reviews all supporting documentation for cash receipts and approves all vouchers for disbursements in accordance with the bylaws.

Exclusive of the County's funding, the Library collected \$1.4 million³ in Library receipts during the audit period. We reviewed the cash receipts Library staff collected⁴ during December 2014 totaling \$81,000 and found these receipts were properly recorded and reported to the Board. We also reviewed five days of receipts collected during that month totaling \$1,600, traced them from the circulation desk records to the cash reconciliation sheet and the bank statement, and determined that all money received on those days was properly deposited.

The Library disbursed \$1.7 million in non-payroll expenditures during the audit period. We traced all 125 disbursements for December 2014 totaling \$698,739 to the approved abstract to ensure they were properly approved for payment. We also selected five vendor payments made throughout the audit period totaling \$21,149 and traced these payments to supporting documentation to ensure that these disbursements were approved and for proper Library purposes and found no exceptions.

The Library paid \$4 million in salaries and wages during the audit period for its 46 employees. We reviewed 20 time sheets for 10 employees who were paid \$68,650 in April 2015 for accuracy and proper approval by comparing the hours reported on the time sheets with those shown on the payroll reports. For two of these employees, we also recalculated the salaries and wages paid based on Board-approved rates and found the established controls operated effectively.

Recommendation

1. Library officials should work with County officials and other municipalities within the Library's service area to develop a plan to either increase revenues to support the current service levels and associated expenditures or further reduce services and expenditures.

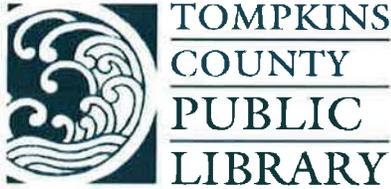
³ This amount includes two large donations totaling approximately \$597,000 in 2014.

⁴ These receipts include library counter collections, fines, donations and other miscellaneous cash receipts.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

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



NAVIGATING A SEA OF RESOURCES

January 8, 2016

[REDACTED]
Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street, Suite 1702
Binghamton, NY 13901-4417

Dear [REDACTED]

Please accept this letter as our response to the findings and recommendations of the draft Report of Examination for the period of January 1, 2014 – May 31, 2015. This letter will also serve as our Correction Action Plan (CAP).

Audit Recommendation

Library officials should work with County officials and other municipalities within the Library's service area to develop a plan to either increase revenues to support the current service levels and associated expenditures or further reduce services and expenditures.

Upon review of the draft report, the Board of Trustees and Library Director accept the findings and audit recommendation. In response to the findings, we are extremely pleased that the internal and compensating controls over financial operations of Tompkins County Public Library (TCPL) were found to be effective. We also agree with the recommendation to develop a plan to support current service levels. TCPL cannot continue to rely on fund balance as a financing source and any further reduction in services would not be beneficial to the population we serve.

The Board of Trustees and the Library have worked closely with the County for relief of the dependence on the Library's fund balance. In response to the findings and recommendations issued by the Library Structural Deficit Work Group in July 2013, Tompkins County has substantially increased their support of TCPL. In addition to increasing target funding, the County has consecutively increased ongoing permanent funding by \$175,000 in 2014, \$140,000 in 2015 and by \$150,000 in 2016.

In conjunction with Tompkins County, in fiscal year 2016 the Library will also work more closely with the Town of Ithaca and the City of Ithaca for increased support and will undertake a community engagement initiative to both educate the community served by the library and to garner support. We are actively planning the community engagement to take place throughout 2016. We also expect some additional budget relief with the elimination of an unexpected non-recurring professional fee by fiscal year 2017.



TOMPKINS
COUNTY
PUBLIC
LIBRARY

NAVIGATING A SEA OF RESOURCES

We would like to thank the audit team for their assistance and professionalism during the audit. We appreciated the opportunity to work with them.

Thank you for conducting this review of Tompkins County Public Library.

Sincerely,

Susan A. Currie
Library Director

Cc: TCPL Board of Trustees
Michelle Benjamin, Business Manager



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the Library officials' financial management activities for the period January 1, 2014 through May 31, 2015. To achieve our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Library officials regarding the internal controls established over the day-to-day operations and tested these controls to ensure that they were working as intended.
- We reviewed the controls in place over all receipts and disbursements including payroll during December 2014 to ensure that the established controls were as implemented and working effectively. We selected December 2014 to ensure the year-end balances were accurate.
- We reviewed five days of receipts collected during December 2014. We traced all cash receipts received on those days from the circulation desk to the cash reconciliation sheet and to the bank statement to determine if all money received was deposited. We randomly selected the five days for our sample.
- We reviewed all 125 canceled check images from the December 2014 bank statement to determine if they were properly approved.
- We selected five vendor payments throughout the audit period based on the name of the vendor to determine if these payments were properly approved.
- We reviewed 20 of the 92 time sheets for 10 of the Library's 46 employees from April 2015 to determine if payments were accurate and properly approved. We chose our sample by selecting every fifth employee's name listed on the payroll reports.
- We interviewed Library officials regarding their procedures for managing the Library's fund balance, including the use of fund balance in the annual budget.
- We calculated the Library's unassigned fund balance as a percentage of the ensuing year's appropriations from 2012 through 2014.
- We compared the budget-to-actual results of operations and made inquiries of Library officials for variances in excess of 10 percent for revenues and expenditures for 2014.
- We calculated the operating results from 2012 through 2014 and determined whether Library officials used the fund balance appropriated each year.
- We projected the ending fund balance for the 2015 fiscal year, using the ending fund balance of 2014, the results of operations as of December 21, 2015 and the anticipated outstanding expenditures for the remaining 10 days of the year.

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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