



Brighton Memorial Library

Board Oversight

Report of Examination

Period Covered:

January 1, 2014 – February 28, 2015

2015M-116



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 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 Brighton Memorial Library, entitled Board Oversight. 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 Brighton Memorial Library (Library) is a municipal library located in the Town of Brighton (Town) in Monroe County. The Library operates out of a portion of the building that is also used as the Town Hall and provides services to approximately 36,500 residents. The Library received its provisional charter from the Board of Regents of the New York State Education Department in 1951. The Library is part of the Monroe County Library System (MCLS).¹ The MCLS administers a computerized integrated library system and supports its member libraries by providing services, such as maintaining computer databases of the libraries' inventory of materials on hand for loan, library patron borrowing histories, fines and fees paid and outstanding account balances. The Library lends books, magazines, DVDs and CDs to those who have a library card. It also provides child and adult learning classes and free Wi-Fi service for residents. In addition, the Library checkout desk maintains a small inventory of flash drives, earbuds and book bags for sale.

The Library is governed by a five-member Board of Trustees (Board) that is appointed by the Town Board. The Board is primarily responsible for the general oversight of the Library's financial affairs and the safeguarding of Library resources. The Executive Director (Director) is appointed by the Board and is responsible for the day-to-day management of the Library, including the management of staff. The Library Administrative Analyst (Analyst) is responsible for recording all operating transactions in the Town's financial software, monitoring the budget in a spreadsheet and preparing monthly abstracts² and financial reports. The Analyst is also responsible for recording private fund transactions in a spreadsheet and completing bank reconciliations for private fund accounts. The Library's public funds (moneys received from taxes and other public sources) are deposited, disbursed and recorded by the Town, while the Analyst and Director handle the Library's private funds (moneys received from gifts or donations). The Town annually reports the results of operations for both the public and private funds on its annual update document (AUD) and financial statements.³

¹ MCLS is a federation of 20 independent public libraries located in Monroe County and is chartered by the State Board of Regents to provide services to public libraries and to provide library services to those with special needs within the County.

² An abstract is a list of claims, including claim numbers, vendor names and billed amounts.

³ Public funds are reported in the Library fund and private funds are reported in the private purpose trust (TE) fund in the AUD. However, the financial statements combine both private and public funds for reporting purposes.

The Library's budgeted appropriations for 2015 are approximately \$2,146,000, funded primarily with real property taxes, along with revenues from fees and fines collected on overdue materials. The Library also conducts an annual capital campaign (fundraising event) for the solicitation of donations from residents. Donations totaled over \$80,000 in 2014.

Objective

The objective of our audit was to review the Board's oversight of Library operations. Our audit addressed the following related question:

- Has the Board provided adequate oversight of the Library's finances?

Scope and Methodology

We examined the Board's oversight of financial operations for the period January 1, 2014 through February 28, 2015.

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.

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 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. 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.

Board Oversight

The Board is responsible for the general management and control of the Library's finances and ensuring that adequate internal controls are in place to safeguard its resources. The Board fulfills this responsibility, in part, by establishing policies and procedures which ensure that financial transactions are properly authorized and approved prior to paying vendor claims⁴ and which provide reasonable assurance that cash and other resources are properly safeguarded. The Board is also responsible for the review of key monthly financial reports, including bank statements, bank reconciliations, investment account statements and the Director's report.

Although the Board approved lists of vendor claims that were prepared by the Analyst, it did not complete a proper audit of the claims from vendors prior to paying those vendors from either the operating account or the private funds account. In addition, although the Library has accumulated over \$762,500 in private funds as of the end of 2014, it has no formal written plan to use the money. Of this, the Library maintains approximately \$627,000 in mutual funds, fixed income securities and cash equivalents with two investment brokerage firms; these are improper investments at unauthorized financial institutions. Finally, the Board failed to review the bank statements, bank reconciliations and investment statements of the private funds. As a result, there is an increased risk of loss on investments, including principal, and that errors, fraud or abuse could occur without detection.

Audit of Claims

New York State Education Law requires the Board to audit and approve all Library claims prior to authorizing payment. This requirement applies to all claims, whether the Library pays them directly from private funds or the Town pays them on the Library's behalf out of public funds. A proper claims audit process helps to ensure that all claims are sufficiently itemized, in compliance with procurement policies and applicable laws and contracts, contain evidence that the goods or services were actually received and represent actual and necessary expenditures for the amounts claimed. Each claim should be assigned a sequential number and be included on an abstract⁴ presented to the Board for audit. Approval of the abstracts should be documented in the Board minutes, and Board members should sign or initial the claims to further indicate approval. Also, the Board may authorize the payment of recurring expenditures in advance of its audit and approval, such as utility bills and postage, but must formally approve such claims at the next Board meeting.

⁴ Claims are bills or invoices submitted by vendors requesting payment for goods or services.

The Board did not complete a proper audit of claims prior to their payment. Instead the Board reviewed and approved abstracts of claims that were prepared by the Analyst each month. Because operating fund claims were paid by the Town, these claims were audited by the Town Board prior to payment. However, this is not a mitigating control because it is the Board's responsibility to ensure that they represent actual and necessary Library expenditures.

Due to this deficiency, we reviewed a random sample of 62 claims paid from the operating account totaling approximately \$33,300 and all 39 claims paid from the private fund account totaling approximately \$28,800 during the audit period to determine whether the claims were sufficiently itemized or contained adequate supporting documentation and represented appropriate Library expenditures. It appears that all claims were for appropriate purposes and we found that all but one claim totaling \$34 had a voucher with adequate supporting documentation attached. Although our testing did not disclose significant deficiencies or evidence of fraudulent transactions, the failure to conduct a proper and thorough audit of claims increases the risk that fraud or abuse could occur and not be detected and corrected in a timely manner.

Private Funds

All moneys collected and disbursed by the Library, including gifts or donations from private sources, must be handled in the same manner as funds from public sources. Because some of these moneys may have donor restrictions, it is essential that the Board establish policies and procedures to ensure that the funds are spent in accordance with the conditions prescribed by the donors. Furthermore, it is important that the Board ensure the investment of these private funds is in accordance with the Board's adopted investment policy and law. The Board's oversight of these private funds should, at a minimum, include a monthly review of bank and investment statements and their corresponding reconciliations as well as fundraising activity reports.

The Library receives gifts and donations from residents throughout the year. As of December 31, 2014, the Library had approximately \$762,500 in private funds. Some of these funds had donor restrictions, such as approximately \$8,500 that could only be spent on literature, music and opera. However, the majority of these funds totaling \$754,000 were from annual capital campaign drives to provide funding for various library initiatives and upgrades, including a future redesign of the Library floor plan. The Board does not have a formal written plan to use this money, but the Director told us that Library officials plan to use approximately \$400,000 to offset the costs of a future Library redesign. Accumulation of excessive private funds could be a sign that the Board is not spending the money as the donors intended or that the Board continued to raise money with no particular plan for its use.

The Analyst keeps track of the gifts and donations received and makes the associated deposits; however, no official reporting of the donations is made to the Board. Due to the weaknesses noted, we tested all 427 donations received between January 2014 and February 2015 to ensure that the deposits were complete and adequately supported. We found that, in general, the deposits were complete and adequately supported, with only two⁵ deposits that did not contain adequate documentation.

Of further concern is that the Board improperly invested approximately \$627,000 of the private funds in mutual funds, fixed income securities and cash equivalents with two investment brokerage firms.⁶ The Board is required to place moneys in time deposits, certificates of deposit or other investments in accordance with General Municipal Law. This occurred because the Board did not adopt an investment policy. These improper investments put Library moneys at risk and could result in a loss of principal. Furthermore, because the Board does not review the bank reconciliations or investment statements for the private fund accounts, the risk that errors or irregularities could occur without detection significantly increases.

Recommendations

The Board should:

1. Audit and approve all claims prior to payment and document the approval in its minutes.
2. Establish a policy to determine the appropriate level of fund balance to maintain in the private fund accounts.
3. Develop a comprehensive written investment policy, adhere to and enforce all provisions of its investment policy and divest itself from all improper investments and place all Library moneys in time deposits, certificates of deposit or other investments in accordance with General Municipal Law.
4. Review bank and investment statements and their corresponding reconciliations on a monthly basis.
5. Require the Analyst to provide a monthly report of gifts and donations received, used and balances on hand. This report should be reviewed monthly by the Board.

⁵ One donation was a cash donation and the other donation was made via check.

⁶ These firms are not banks or trust companies, and their products are not solely time deposits or certificates of deposit; most importantly, the cash and investments in these accounts are not fully FDIC insured or guaranteed, and may lose value.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

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

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Office of the State Comptroller
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Rochester Regional Office
The Powers Building
16 West Main Street, Suite 522
Rochester, NY 14614
ATTN: Edward Grant Jr., Chief Examiner

August 20, 2015

Dear Mr. Grant,

On behalf of the Brighton Memorial Library (BML) Board of Trustees, I am writing in response to your July 21, 2015 letter and preliminary draft audit findings for the period of January 1, 2014 - February 28, 2015.

BML appreciates the efforts and guidance of your field staff during this audit process. Having reviewed the draft audit report, the BML Board and Executive Director do not take issue with the recommendations cited and have already started working on the implementation process.

We disagree, however, with several statements that suggest financial management was unsatisfactory and are disappointed the report did not more favorably reflect the strong internal control procedures we already have in place, both on the Library and Town levels. The Board is pleased to note that after approximately eight weeks of in depth auditor review and examination, no theft, malfeasance or instances of significant deficiency were found.

Thank you for conducting this operations review of Brighton Memorial Library. We look forward to addressing the recommendations as part of our forthcoming corrective action plan.

Sincerely,

Linda Rapkin
Brighton Memorial Library Board President

CC BML Board
Jennifer Ries-Taggart, Executive Director
Kathy Dutcher, Administrative Analyst
William Moehle, Town of Brighton Supervisor

<http://www.brightonlibrary.org>

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Board's oversight of Library operations from January 1, 2014 through February 28, 2015. To accomplish the objective of this audit and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Library officials and employees to gain an understanding of the Library operations and to determine the internal controls in place.
- We reviewed Board minutes, the procurement policy, the cash handling policy and the gift fund policy. We also reviewed the Library's policies and procedures relating to information technology and interviewed users to determine their knowledge of information technology controls as they related to our audit objective.
- We reviewed a random sample of 62 claims paid from the operating account for the period January 1, 2014 through February 28, 2015 totaling approximately \$33,300 to determine whether they were properly itemized or contained adequate supporting documentation and represented appropriate Library expenditures. The random selection was determined using an electronic spreadsheet function. We reviewed the vouchers to determine if the claims were sufficiently itemized, if receipts were retained by the library, the library was charged appropriately and the purchases were reasonable.
- We reviewed all 39 claims paid from the private fund account for the period January 1, 2014 through February 28, 2015 totaling approximately \$28,800 to determine whether they were sufficiently itemized or contained adequate supporting documentation and represented appropriate Library expenditures. We reviewed the vouchers to determine if the claims were sufficiently itemized, if receipts were retained by the library, the library was charged appropriately and the purchases were reasonable.
- We reviewed all 426 check receipts and the only cash receipt for the private fund totaling approximately \$97,800 to determine if they contained adequate support. We also determined if they were deposited intact.
- We reviewed all 77 credit card receipts for the private fund totaling approximately \$5,300 to determine if they contained adequate support. We also determined if they were deposited intact.
- We reviewed bank and investment statements and financial records to determine if Library moneys were properly invested and if all transfers out of the accounts were authorized.
- We conducted a cash count of all available money on February 17, 2015.
- We reviewed the Library's accounting records and annual reports to determine if all necessary records and reports were prepared in an accurate and timely manner.

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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