



# Fairport Public Library Financial Management

## Report of Examination

Period Covered:

July 1, 2012 — July 25, 2014

2014M-354



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 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 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 Fairport 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 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 Fairport Public Library (Library) is a school district public library located in the Village of Fairport within the Town of Perinton in Monroe County. The Library serves the residents of the Fairport Central School District (FCSD). A Board of Trustees (Board), which comprises five elected members, governs the Library and is primarily responsible for the general oversight of the Library's financial affairs and the safeguarding of Library resources. The Library Director (Director) is the Library's executive and administrative officer and is responsible for the day-to-day management of the Library under the Board's direction. In accordance with New York State Education Law (Education Law) and the Library's by-laws, the FCSD Treasurer (Treasurer) serves as the custodian of all Library funds.<sup>1</sup> As such, the FCSD accounts for and reports the Library as a library fund. However, the Library Board has ultimate control over the use of Library funds and is directly responsible for overseeing the Treasurer's work related to the Library's financial operations and transactions, just as it would oversee an appointed treasurer or other Library official.

The Library's 2014-15 adopted budget totaled approximately \$2.6 million and was funded primarily with a real property tax levy approved by the school district voters, along with minimal revenues from fines and fees collected on overdue library materials. If, for any fiscal year, the Library wishes to increase the tax levy (\$2,478,023 in 2014-15), school district voters must approve the increase. Likewise, when the Library decided to pursue a \$4.5 million capital project for the renovation of the Library's facilities, the proposition was brought to school district voters and approved on May 20, 2014.

The Library is part of the Monroe County Library System (MCLS).<sup>2</sup> The MCLS administers a computerized circulation system (System) and supports its member libraries by providing services such as maintaining computer databases of the inventory of materials on hand for loan, patron borrowing histories, the tracking of fines and fees and outstanding account balances.

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<sup>1</sup> Unless the Library Board was to appoint its own treasurer and demand payment of the Library tax levy over to the appointed treasurer, per Education Law, Section 259

<sup>2</sup> MCLS is a New York State chartered federation of 20 independent public libraries located in Monroe County and was created to provide services to public libraries and library services to those with special needs within the County.

**Objective**

The objective of our audit was to review the Library's financial management. Our audit addressed the following related question:

- Has the Board exercised sufficient oversight of the Library's financial operations to adequately safeguard the Library's resources?

**Scope and Methodology**

We examined the financial management of the Library for the period July 1, 2012 through July 25, 2014. We extended our scope for certain financial data back to the 2009-10 fiscal year for trend analysis.

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 C 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 disagreed with the wording of certain findings but indicated that they agreed with the recommendations and would be implementing corrective action. Appendix B includes our comments on issues Library officials raised in their response.

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 Director's office.

# Financial Management

The Board is responsible for the general oversight of the Library's financial operations and for making sound financial decisions that are in the best interests of the Library and the taxpayers who fund its operations. These responsibilities require the Board to establish and monitor policies and procedures for effective Library operations, including policies required by law. The Board must also directly oversee the Director's management of Library programs and the Treasurer's processing of financial transactions to ensure Library resources are accounted for properly and adequately safeguarded. Lastly, the Board should develop formal financial plans and adopt realistic budgets which limit annual tax levies and retained fund balances to those necessary to meet established financial goals.

The Board did not take an active role in overseeing the Library's financial operations and monitoring the Treasurer's work. The Board did not establish policies and internal controls over investments and certain other key financial areas. Library officials do not review or approve financial transactions before they occur and, instead, rely on FCSD employees to both process and approve all financial activity. Furthermore, the Board did not establish formal financial plans or budgeting policies to guide Library officials and inform taxpayers of its financial goals and related budgetary decisions. Thus, the Board cannot assure taxpayers that all Library resources are adequately safeguarded and appropriately used, or planned for use, in furtherance of the Library's established goals, or that fund balance levels and tax levies are not higher than necessary.

## Financial Oversight

Adequate Board oversight of financial operations is essential to help ensure that Library money is spent in the manner that will accomplish the Board's goals. Although the Treasurer is statutorily designated as the custodian of all Library funds, it is the Board's responsibility to direct Library operations and the use of Library funds and actively oversee the Treasurer's work related to the Library's financial operations and records.

The Board did not provide adequate oversight of the Treasurer's work or actively direct and monitor the Library's financial operations. Due to the Board's belief that the FCSD has strong internal controls in place over its own financial processes, the Board members have allowed various FCSD employees<sup>3</sup> to both process the Library's financial

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<sup>3</sup> Education Law provides for the Treasurer to maintain all Library funds. However, many of the Library's financial transactions are processed by other FCSD employees, who are not overseen by the Treasurer. The Board should carefully oversee and review these operations and transactions, and ensure that the Treasurer remains ultimately responsible for the processing of these transactions.

transactions and oversee, approve and monitor those functions. In addition, the Board did not adopt policies and procedures over certain key financial areas,<sup>4</sup> including a statutorily required investment policy, presumably relying on policies or procedures used by the FCSD. The Library is a separate entity with different goals and objectives than the FCSD and thus cannot rely on FCSD policies, procedures and decision makers to meet its needs and goals. Additionally, the Board lacks the authority to delegate its discretionary functions to others. By relying on FCSD employees to process and approve all financial transactions, the Board has essentially relinquished control over the Library's financial operations. Therefore, the Board lacks assurance that the Library's resources are adequately safeguarded and its financial goals are being implemented.

For example, the Board does not audit Library claims<sup>5</sup> before they are paid,<sup>6</sup> but instead relies on the FCSD's claims auditor for the audit and approval of claims, using the same process used for all other FCSD claims. The Board reviews the paid claims and votes to "accept" the warrant at the following Board meeting, about a month after the payments have been made. In addition to being contrary to the requirements of Education Law, this practice diminishes the Board's oversight and accountability and eliminates its ability to question or disallow questionable payments before they are made. The FCSD employees are not in a position to knowledgably approve a Library expenditure as appropriate. Because the claims audit function clearly requires the exercise of discretion, the Board cannot delegate this function. Furthermore, the Board's failure to audit claims prior to payment increases the risk that errors or irregularities could occur and not be detected by Library officials and corrected in a timely manner.<sup>7</sup>

In addition, FCSD employees complete all Library payroll transactions, approvals<sup>8</sup> and certifications by including the Library employees in the FCSD's payroll process when compensating FCSD employees. Although an Assistant Library Director performs a monthly comparison of actual payroll line item totals to her projections, Library officials do not review or certify the Library's payroll reports before disbursements take place, which increases the risk that errors or irregularities could occur and not be timely

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<sup>4</sup> Such as cash receipts, cash disbursements and claims audit by the Library Board prior to payment, as required by law

<sup>5</sup> In general, claims are bills or invoices submitted by vendors requesting payment for goods or services, or requests from employees for reimbursement of expenses, along with other supporting documentation and appropriate approval.

<sup>6</sup> Although some claims for items such as petty cash, recurring utilities, postage and freight may be paid prior to audit, these claims must be presented to the Board for audit at the next Board meeting.

<sup>7</sup> See Appendix C for details on our sample testing of claims.

<sup>8</sup> With the exception of supervisory approval of time sheets



detected. To address the increased risk caused by the lack of direct oversight by the Library Board and Director, we tested 20 payroll transactions totaling \$12,992 to determine if employees were paid and received benefits according to the Library's employee handbook, and we reviewed payroll transfers made by the Treasurer from the Library's bank account to the FCSD's payroll account<sup>9</sup> for the five payrolls we tested.<sup>10</sup> We determined that FCSD employees were using the Library's gross payroll, rather than social security wages,<sup>11</sup> to calculate the employer's share of Social Security taxes. This resulted in the Library overpaying social security taxes by \$721 for the five payrolls we tested. Because the FCSD remitted the proper amount of social security taxes to the taxing authority, the Library effectively paid some of the FCSD's portion of payroll taxes.

Furthermore, although the Board and Director are provided with a monthly Treasurer's report that summarizes the Library's financial and bank activity, they do not have access to the accounting records<sup>12</sup> or on-line access to the Library's bank accounts and do not receive the bank statements for the Library's accounts.<sup>13</sup> Therefore, Library officials did not ensure they had sufficient information available to provide adequate oversight of the Library's financial operations and the work performed by the Treasurer and other FCSD employees. To address the increased risk caused by the lack of oversight, we tested all 111 transfers out of the Library's bank accounts<sup>14</sup> during our audit period, totaling \$7.5 million. We found no indication that the Board or Director approved any of the transfers in advance, including a \$1 million transfer from the Library's checking account to establish a money market savings account. Library officials could not provide us with evidence that the Board authorized the Treasurer to open a new Library bank account.<sup>15</sup>

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<sup>9</sup> The library fund, from which Library employees should be paid, is to be kept separate and apart from the FCSD's general fund (see Education Law Section 259[1][a]). Therefore, Library money should not be transferred to the FCSD's bank account for payroll purposes.

<sup>10</sup> For details on the testing and sample selection methodology, see Appendix C

<sup>11</sup> The employees' salaries, less deductions for health care costs, for earnings up to \$117,000 in 2014

<sup>12</sup> Library officials told us that FCSD has denied multiple requests for access to the Library's accounting records in the financial software.

<sup>13</sup> Although the Treasurer is statutorily the custodian of Library funds, the Library Board has full responsibility for the Library's financial operations, including selecting its financial institutions and requiring direct on-line access to review the Library's bank activity on an ongoing basis.

<sup>14</sup> The transfers were to other Library accounts or FCSD accounts.

<sup>15</sup> At our exit conference on May 20, 2015, the Director provided a copy of her signed authorization to open the account at a new bank, which FCSD officials had recently provided to her. They did not provide evidence that the Board had authorized the selection of its new financial institution or the transfer of its funds to the new bank account.



The Board's overreliance on FCSD employees to perform, review and approve the Library's financial transactions severely limits the Board members' knowledge of and involvement in financial operations and their ability to assure taxpayers that they have fulfilled their financial oversight duties and sufficiently safeguarded the Library's resources.

Furthermore, one key financial area that Library staff handle directly is the receipt of cash from patrons for Library fines and fees. However, the Board and Director have not established adequate controls over cash receipts at the Library. The Library collects approximately \$100,000 annually for library charges, fines and fees. However, we found that employees do not record all cash receipts in the System to provide a record or accountability of all fines and fees received.<sup>16</sup> In addition, employees occasionally waive patrons' fines and fees within the System, with no formal procedures to guide staff as to when it is appropriate to waive fines and no supervisory review or approval of waived fees, to ensure patrons are treated consistently. Therefore, Library officials cannot be sure that all money collected by the Library is recorded and deposited into the Library's bank account. The failure of the Board and Director to implement necessary controls over cash receipts significantly increases the risk that money could be misappropriated and that the loss or theft may not be detected and corrected.<sup>17</sup>

The Board's failure to establish adequate internal controls or take a sufficiently active role in managing and overseeing the Library's financial operations limited its control over operations and assurance that Library funds were adequately safeguarded and properly used, and thus increased the risk that errors or irregularities could occur and remain undetected by Library officials.

## **Financial Planning**

The Board and Director should develop and adopt a formal long-term plan that sets forth the Library's financial objectives and goals and should routinely update the plan and use it when preparing the Library's annual budgets. This plan should demonstrate to taxpayers how the Library's annual spending plans are furthering the Library's long-term goals. In preparing the budget, the Board is responsible for realistically estimating non-property tax revenues, expenditures and available fund balance, and for determining the real property tax levy necessary to close projected gaps. The Board must avoid significantly overestimating expenditures, which will cause the calculated tax levy to exceed the amount actually necessary to fund Library programs

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<sup>16</sup> We spoke with an MCLS representative who told us she can add various other fee types to the System, at the Library's request, to allow the Library to record all revenues received.

<sup>17</sup> See Appendix C for details on our cash receipts testing.

and operations. The Board may formally set aside<sup>18</sup> funds for future capital purposes, which should be in accordance with its long-term plan.

The Board has not developed a long-term financial plan that explains to taxpayers the Library’s long-term goals or to help justify its decisions related to budgets, tax levies and fund balance levels. Without formal budgetary and planning guidance, the Board adopted budgets with conservative estimates,<sup>19</sup> which generated significant surplus fund balances over time, and retained them without clearly demonstrating its need or reasons for maintaining large fund balances.

The Board overestimated appropriations by almost \$900,000 over the last five years,<sup>20</sup> which generated positive budget variances and operating surpluses. During the same period, the Board sought and received voter approval for annual tax increases totaling \$339,231, which were unneeded. Additionally, the Library proposed and received approval from taxpayers to increase taxes again (by \$37,100) for the 2014-15 year. Therefore, the 2014-15 year will likely end with another operating surplus and increase in unrestricted fund balance, which was 64 percent of the budget as of June 30, 2014.

**Figure 1: Library Fund**

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	Totals
Appropriations	\$2,566,174	\$2,504,882	\$2,450,289	\$2,524,325	\$2,572,048	<b>\$12,617,718</b>
Actual Expenditures	\$2,194,670	\$2,406,718	\$2,251,374	\$2,370,690	\$2,524,619	<b>\$11,748,071</b>
Overestimated Expenditures	\$371,504	\$98,164	\$198,915	\$153,635	\$47,429	<b>\$869,647</b>
Percentage Budget Variance	14.5%	3.9%	8.1%	6.1%	1.8%	<b>6.9%</b>
Tax Increase from Prior Year	\$82,878	\$84,642	\$82,607	\$65,876	\$23,228	<b>\$339,231</b>
Unrestricted Fund Balance	\$1,053,676	\$1,166,498	\$1,382,690	\$1,628,982	\$1,683,006	
As Percentage of Ensuing Year’s Budget	42%	48%	55%	63%	64%	

Library officials told us that they regularly discussed various financial plans or goals but did not document these discussions or their results. Thus, they have not adequately documented specific projects or goals to justify the fund balances they have chosen to retain or the annual tax levy increases. However, in 2013, the Board began

<sup>18</sup> By making designations of or allocating fund balance by Board resolution

<sup>19</sup> While the annual budget variances were not individually significant, they were all favorable, causing the fund balance to grow.

<sup>20</sup> The Library also had less material positive revenue variances each year, totaling \$148,000 for the last five years, with the largest variance of nearly \$93,000 (3.7 percent) in 2012-13.

making allocations of fund balance<sup>21</sup> for various general purposes to set aside money in furtherance of its informal long-term goals. The Board had allocated 96 percent of its \$1.68 million fund balance as of June 30, 2014 into the following categories:<sup>22</sup> capital, \$300,000; employee separations, \$200,000; private donations received for Library enrichment programs, \$84,593; space planning/renovation project, \$70,000; repairs and replacement, \$50,000; and cash flow, \$860,000.<sup>23</sup> The Board President told us that, after deciding to plan for a capital project, the Board stopped appropriating fund balance, beginning with the 2012 budget, and began accumulating fund balance to be available to help fund the future renovations.<sup>24</sup>

The Board could better demonstrate its plans and justify its budgeting decisions to taxpayers through formally adopted and regularly updated long-term financial and capital plans. An adequately detailed financial plan should identify developing expenditure trends, set long-term priorities and goals, avoid large fluctuations in tax rates and assess the effect and merit of alternative approaches to address financial issues and future capital needs. Such a plan would enable the Board to clearly explain its reasons for setting aside funds, such as what specific capital expenditures are foreseen, to help voters make informed decisions when authorizing the spending plan and tax levy increase each year. Although the Board has begun allocating portions of fund balance into various general categories for potential future operating and capital purposes, the full Board does not approve the allocations annually, except when the budget committee recommends changes. Without a formalized and clearly communicated financial plan, taxpayers are not well-informed about the Board's intentions for using this public money.

## Recommendations

The Board should monitor financial operations and the work of the Treasurer by:

1. Establishing written policies and procedures for Library financial operations including key financial areas and investments.

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<sup>21</sup> Although unreserved fund balance is not legally limited to any specific purpose, the Library may designate some unreserved fund balance to express its intention to use available resources in a particular manner. A designation is not legally binding and may be changed at any time.

<sup>22</sup> These allocations were approved by the Board in the September 17, 2013 minutes.

<sup>23</sup> To cover first quarter expenditures, because the Library does not receive its tax levy until October. This amount was about 33 percent of 2014-15 appropriations.

<sup>24</sup> Previously, the Board aimed to maintain a fund balance of 10 to 25 percent of the year's operating budget. The Board adopted a new policy in July 2013 and revised it with further clarifications in August 2014, subsequent to our field work. The current policy requires the Budget Committee to project various categorical needs annually, including cash flow needs up to 25 percent of operating budget, employee separation payouts, capital needs and library enrichment.

2. Establishing and implementing effective claims audit procedures to ensure that the Board audits and approves all claims for payment before the disbursements are made.
3. Ensuring that a Library official certifies the payroll before it is processed and paid by the FCSD and that the Library is paying the appropriate amount in payroll taxes.
4. Formally authorizing the opening and closing of Library bank accounts.
5. Ensuring that designated Library officials have read-only access to the Library's computerized accounting records and routinely review and monitor recorded activity.
6. Ensuring that designated Library officials receive (or have on-line access to) and review monthly bank reconciliations along with bank statements and canceled check images.
7. Ensuring that the Director requires Library employees to enter all cash receipts into the System and routinely generate, review and reconcile the System cash receipt report to the cash register and bank deposit records.
8. Implementing a policy or procedures requiring consistent handling of any waivers of patron fines or fees, including supervisory approval.
9. Developing a long-term plan that sets forth the Library's financial objectives and goals.
10. Adopting budgets with realistic estimates of revenues, expenditures and the amount of fund balance that will be available and used as a funding source.
11. Developing a plan to use the unexpended surplus funds in a manner that benefits the Library's taxpayers, such as financing one-time expenses or setting aside portions for specific future capital purposes.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

June 1, 2015

*Via E-mail (.pdf) Only to Muni-Rochester@osc.state.ny.us*

Edward V. Grant Jr., Chief Examiner  
Office of the State Comptroller  
Rochester Regional Office  
16 West Main Street, Suite 522  
Rochester, New York 14614-1608

*Re: Response to Draft Report of Examination (2014-354) – Fairport Public Library*

Dear Mr. Grant:

Please accept this letter as the Fairport Public Library's response to your office's draft Report of Examination for the audit that was conducted for the period of July 1, 2012 to July 25, 2014.

We appreciate the effort that OSC staff expended in this review and understand OSC's role in providing guidance regarding these matters. We reviewed each of the Report's recommendations as a Board and with senior staff and are committed to refining our practices and procedures to bolster our financial management of the Library. However, we do not agree with many of the characterizations in the report that suggest that financial management was absent. While we acknowledge that some of our processes may not be consistent with the best practices that OSC staff described for us, we have been extremely active in the management and oversight of the Library's financial operations, the staff of the Library, and the school district upon which we rely to act as custodian of our funds. As such, we regard certain portions of the report to be unduly critical of our oversight.

See  
Note 1  
Page 14

For example, although the report faults us, as a Board, for not engaging in pre-payment approval of every Library expenditure, we review and approve each warrant upon its payment, and our Director and the Fairport Central School District's ("FCSD") claims auditor review each payment for propriety and completeness before it is issued. We acknowledge that this procedure needs to be revised to comply with the statutory requirement, but we disagree that it poses a significant control weakness, especially since it is the generally accepted practice among many public bodies in their day-to-day operations (including, appropriately, the FCSD). In addition, as you know, several categories of payments which make up over 75% of our budgeted expenditures (e.g., payroll expenses, rent, utilities, etc.) have been categorically excepted from pre-approval by past OSC opinion. As such, we were disappointed that the report did not more favorably reflect the control procedures we do employ.

See  
Note 2  
Page 14

See  
Note 3  
Page 14

In addition, we believe that your analysis of our fund balance does not adequately reflect our need, and the practical reality for us, to maintain sufficient reserves to fund our operations while we are waiting for the school district to collect taxes in the July through October time frame. A significant portion of our fund balance is maintained in connection with that operational need

See  
Note 4  
Page 14



and, without it, we could be forced to engage in short-term borrowing at additional cost to the taxpayers. Moreover, as we explained, we continue to be in the process of a capital improvement project and in accordance with Governmental Accounting Standards Board Statement No. 54 had previously assigned certain portions of the fund balance for use in connection with that project. While we have been closely monitoring the allocation of our fund balance for the past three years at the budget committee level, we will add clear communication regarding that fund balance monitoring in our Board minutes as well. However, we do not believe that law or principles of sound fiscal management support the premise that our fund balance is categorically too large.

See  
Note 4  
Page 14

Also, we believe the report’s characterization of the \$1 million transfer being made without the knowledge or approval of the Board or Director is contrary to evidence that we shared. As we explained, the FCSD was required to change their banking institution unexpectedly as a result of Citizen’s Bank exiting the school district municipal banking market; therefore, as custodian of our funds they notified us as soon as possible of their need to issue a Request for Proposal for a new banking relationship. Once the appropriate decisions were made by FCSD, the appropriate communication was made between the Library and District to begin the process of transitioning all accounts to the selected bank. OSC staff was provided with documentation showing that the Library Director signed the approval to open the new account, which was approved at the Board level. We understand that OSC wanted documentation of a formal Board action to transfer the account balances—and based on our new understanding, we would now do that in a similar circumstance—but as we explained, the transaction was described to and authorized by the Library Board in advance of the Director’s action and the suggestion that FCSD moved these funds with no knowledge or approval of the Library is inaccurate.

See  
Note 5  
Page 14

We remain committed to being responsible and compliant stewards of the Library’s assets and are pleased that, after OSC staff spent nine weeks in our Library doing its examination, the report found no instances of theft or misappropriation. We acknowledge that we may have to review and enhance our procedures and policies as we evaluate each of your recommendations. As we stated in the exit interview, we do not take issue with those recommendations and view them as helpful guidance in connection with our review of our operations. As we are required to do, we will address each recommendation as part of our corrective action planning.

Thank you for the opportunity that this process has given us to consider ways to enhance our stewardship.

Very truly yours,

Suzanne Stockman  
President of the Board of Trustees

cc: Board of Trustees  
Betsy Gilbert, Library Director



## APPENDIX B

### OSC COMMENTS ON THE LIBRARY'S RESPONSE

#### Note 1

At our exit conference, Library officials indicated that they provided active oversight of the financial operations and work of the Treasurer by adopting various policies, including a purchasing policy. We reported that the Trustees' oversight would be improved by the adoption of additional policies. Of equal importance is monitoring compliance with and the effectiveness of the policies adopted.

#### Note 2

The FCSD's use of a claims auditor to audit and approve the District's claims prior to payment complies with related sections of Education Law applicable to the District. However, this section of law does not apply to the Library. Instead, Education Law Section 259[1][a] requires that Library funds be expended only under direction of the Library Trustees on properly authenticated vouchers. The Library's Attorney confirmed this legal requirement at our exit conference. Instead of approving proposed payments, the Board was reviewing them after the fact.

#### Note 3

Library officials must review and approve all expenditures prior to payment. Library officials (not FCSD officials) should review and certify payroll reports before paychecks are released. Further, most control procedures we identified were performed by FCSD employees instead of Library officials, or by Library officials well after payments were already made.

#### Note 4

We acknowledged the Board's recent allocations of fund balance in our audit report. However, we also addressed the need for a long-term financial plan and improved budgeting practices, as current practices continue to generate additional surplus fund balance and potentially unnecessary annual tax increases.

#### Note 5

The key issue is the lack of information available to, and oversight provided by, Library officials. There is no documentation that the Board or Director approved, or were even aware of, routine transfers between the Library's bank accounts. Furthermore, although the Director had signed the authorization for the new account, she could not provide us with the documentation during our audit fieldwork. The Director provided the documentation at our exit conference shortly after receiving it from FCSD officials. We have not been provided with documentation that the Board was aware of or involved in developing or issuing a request for proposals to select its own financial institution. We updated the report to reflect the information provided at our exit conference and referred to in the Library's response.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Board's management and oversight of the Library's financial operations. To accomplish the objective of this audit and obtain valid audit evidence:

- We interviewed appropriate Library officials and employees to gain an understanding of the Library's financial operations and to determine the internal controls in place.
- We reviewed Board minutes, Board policies, documented procedures and the employee handbook.
- We analyzed fund balance for the 2009-10 fiscal year through the 2013-14 fiscal year.
- We compared budgeted revenues and expenditures to actual operating results for the 2009-10 fiscal year through the 2013-14 fiscal year.
- We reviewed total annual revenues and appropriations for the 2009-10 fiscal year through the 2013-14 fiscal year to determine the operating deficits or surpluses.
- We reviewed the 2013 payroll analytic prepared by an Assistant Library Director.
- We selected five pay periods for payroll testing. We selected April 15, 2014 because it was the most recently completed payroll at the time of our risk assessment. We also tested the four pay periods in July and August 2013 (July 13, 2013, July 30, 2013, August 15, 2013 and August 30, 2013) because Library officials told us they had the highest number of payroll transactions. From these payrolls, we completed the following payroll tests:
  - o We tested 20 payroll transactions for accurate hours, Board-approved pay rates, appropriate benefits and leave granted, approved and used. Of these 20 transactions, 12 were randomly selected from the April 15, 2014 payroll and eight were selected using a random sample selection macro from the four payrolls in the months of July and August 2013.
  - o We reviewed the payroll certifications prepared by the FCSD Assistant Superintendent of Human Resources.
  - o We tested the accuracy of the payroll-related bank transfers from the Library's bank account into the FCSD payroll bank account.
- We tested bank reconciliations for the three most recently completed months of February, March and April 2014. We verified that the bank activity agreed to the information reported in the monthly Treasurer reports.

- We tested all transfers out of the Library bank accounts during our scope period. We verified that the transfers were made to another Library or FCSD account as appropriate or were for proper Library expenditures.
- We reviewed the supporting documentation for the annual transfer to FCSD for dental insurance and retirement costs.
- We tested 70 claims transactions totaling \$68,253; 52 were randomly selected and 18 were judgmentally selected (payments to employees, eateries, vendors that looked unusual). We selected the claims from warrants and electronic disbursement data covering our full audit period. We reviewed the claims for appropriate approvals, adequate support and reasonableness and discussed minor discrepancies with Library officials.
- We tested cash receipts for the three most recently completed months of February, March and April 2014 as follows:
  - o We traced cash receipt transactions from the cash register receipt tapes to the deposits into the Library's bank account.
  - o We requested and analyzed the MCLS System cash receipt report.
  - o We compared transactions included on the cash receipt report with the deposits into the Library's bank accounts to test for accuracy.
  - o We discussed identified deficiencies with Library officials.

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 D

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