

# Fulton Public Library

## Cash Receipts and Disbursements

**MARCH 2018**



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Fulton Public Library

### Audit Objective

Determine whether the Board and Library officials developed and implemented adequate internal controls over cash receipts and disbursements.

### Key Findings

- The Board has not established adequate internal controls for over-the-counter cash receipts and waiving fines. During our audit period, Library employees waived about \$21,000 in Library fines, which represents about 75 percent of all fines levied.
- A privately contracted payroll vendor has access to the Library's bank account to withdraw funds for payroll and fees.
- The Board does not audit claims before disbursements are made.

### Key Recommendations

- Establish policies and procedures for cash receipt collections and waiving fines.
- Remove the payroll vendor's access to the Library's bank account.
- Audit and approve claims prior to payment.

Library officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the Library's response letter.

### Background

The Fulton Public Library (Library) is located in Oswego County. The Library is part of the North Country Library System (NCLS).

Originally chartered as a public city library, in 2014 the Library became a school district public library. It is governed by a seven member Board of Trustees (Board) who are elected by Fulton City School District (District) residents.

The Library Director and Treasurer<sup>1</sup> are appointed by the Board. The Director is responsible for day-to-day administration, and the Treasurer maintains custody of the Library's money.

The Vice President of Finance is a Board Trustee and is responsible, along with the Treasurer, for reporting the Library's financial activities and condition to the Board.

#### Quick Facts

|           |           |
|-----------|-----------|
| Budget    | \$375,211 |
| Residents | 20,616    |
| Employees | 9         |

### Audit Period

July 1, 2015 – May 31, 2017

<sup>1</sup> The Treasurer is appointed annually.

# Cash Receipts

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## What Are Effective Controls for Cash Receipts?

The Board and Library officials are responsible for ensuring that cash receipts are properly collected, safeguarded, deposited and accounted for. Effective policies and procedures help ensure that cash records provide sufficient detail to identify each transaction and a record of accountability for all fines and fees collected. 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.

Each employee who collects money should ideally have his or her own cash drawer and should be required to enter a unique user ID and password into the circulation system used to track the cash receipts. On a daily basis, cash collected should be counted and compared to the record of cash collections in the Library's accountability system (computerized and/or handwritten cash receipt records), and any differences should be investigated and resolved. All cash collections should be adequately secured and deposited in the bank in a timely manner to help prevent potential errors or misuse.

In addition, the Board should establish policies or procedures for waiving Library fines and fees. For example, the policies or procedures should provide guidance to staff so they consistently handle waived fees and fines. Policies and procedures also should address necessary documentation and supervisory review or approval requirements.

## There Is No Accountability Over Cash Collection

The Board has not established written policies for cash receipts, and Library officials have not established procedures to record all receipts at the time of collection and ensure individual accountability for all fines and fees received.

Library personnel collect money for fines, copies, faxes, donations, memorial books, used books and DVDs. During our audit period, the Library deposited about \$25,000 of these cash receipts. However, Library officials could not determine whether these deposits represented all receipts collected during that time period, because the Library has weak controls over the collection and recording of receipts.

Cash is collected at the main floor desk and at the children's desk on the lower level. As many as five employees may work each collection desk during a day. When cash is collected it is placed in a cash box.

The Library uses a computerized circulation system, administered by the North Country Library System (NCLS), that tracks patron fines for overdue items. All Library staff have been assigned user IDs for the system and each created their own passwords. However, staff often do not log in and out upon entering and

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exiting the system. Instead, employees often access the system using the ID and password from whoever logged in at the beginning of the day.

When Library patrons return overdue items, employees collect any fines owed, enter the amounts collected into the system and provide patrons with a system-generated receipt. The funds are placed in a cash box that is accessible to all Library personnel. When patrons use the fax machine, make copies or print from Library computers, employees collect fees from them. However, employees do not record these amounts in the circulation system.

Likewise, employees do not record funds in the circulation system that are collected for the sale of memorial books, used books or DVDs. Library officials do not use a cash register or keep a manual collection log for any transaction that is not entered into the circulation system. Receipts are issued for paid fines only when they are entered into the system, and receipts for other transactions are issued only upon request by patrons. All funds collected are placed in a cash box along with fine money.<sup>2</sup>

Employees do not count cash or reconcile it to cash receipt records at the end of each day. It often remains unsecured in the cash boxes for several days until the Treasurer deposits the funds. Also, the Treasurer does not reconcile the amount of cash deposited to any other records.

We reviewed all deposits made during our audit period and found that the Treasurer deposited Library funds on average one to four times a month and most deposits contained approximately \$500. Because employees share common cash boxes and are not required to issue duplicate receipts, or otherwise record all money at the time of collection, Library officials cannot ensure all money collected is properly accounted for and deposited intact.<sup>3</sup> In addition, when receipts are not deposited in a timely manner, the Library has an increased risk that funds could be lost, stolen or misused.

## **There Are No Policies or Procedures for Waiving Library Fines and Fees**

The Board has not established policies or procedures for waiving Library fines and fees. Also, Library officials do not provide any management oversight of or review fines or fees that have been waived for reasonableness.

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<sup>2</sup> Money collected for the sale of a DVD or used book is put in a separate envelope prior to being placed in the cash box.

<sup>3</sup> In the same order and form (cash or check) in which they were received

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The Library uses a computerized circulation system to track fines charged, paid and waived. Fines can be waived by Library employees for various reasons without supervisory approval. Employees have three options for waiving a fee or fine. They can forgive a fine for a book returned late, cancel a fine due to a Library mistake or cancel a fine for any other reason, such as an amnesty day<sup>4</sup> or with Director approval.

Neither the Director nor Board reviews waived fines or fees. During our audit period, approximately \$21,000 of the more than \$28,000 fines levied were waived by Library staff (75 percent).

Due to the lack of oversight and monitoring of waived fines, Library officials cannot determine whether appropriate discretion was used to waive fines. Also, the Library has an increased risk that employees could collect fines and record them as waived, rather than properly recording the receipts.

### **What Do We Recommend?**

The Board should:

1. Establish policies regarding collecting, remitting and depositing cash receipts and waiving fines.
2. Ensure Library officials establish written procedures that provide guidance for employees when collecting, depositing and accounting for cash collections and receipts and waiving fines.

The Director should:

3. Establish controls at cash collection points for greater accountability, such as instituting the use of individually assigned cash boxes or drawers and requiring the use of duplicate receipts or cash receipt logs to document all collections.
4. Establish procedures to compare cash receipts to the Library's accountability system and investigate and resolve any discrepancies.
5. Ensure cash receipts are adequately secured prior to deposit and that the Treasurer deposits all receipts in a timely manner.
6. Regularly review reports of waived library fines for reasonableness.

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<sup>4</sup> During amnesty days, patrons can return overdue or "lost" items and all fines/fees will be waived with no questions asked.

# Cash Disbursements

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## What Are Effective Controls Over Cash Disbursements?

The Board and Library officials are responsible for establishing and implementing effective cash disbursement policies and procedures to ensure that cash is disbursed only for proper library purposes and upon proper authorization. According to the Library's bylaws, the Vice President of Finance, with the Treasurer's assistance if necessary, must present proposed Library expenditures to the Board for approval. Also, Education Law requires the Board to audit all claims against the Library prior to payment.<sup>5</sup>

The Treasurer should reconcile all Library bank accounts to the bank statements and canceled checks on a monthly basis. These reconciliations should be reviewed by an individual independent of the cash disbursement function.

The Board must authorize and approve all salaries and wages paid to Library employees and pay rates for service providers. The Board should clearly stipulate employees' compensation in writing by resolution or in a policy document approved by resolution. Sound policies should require the use of written agreements to establish the contract period, describe the services to be provided and document a clearly defined basis for determining entitlement to payments.

## Nonpayroll Disbursements Were Made Prior to Board Review

The Board needs to improve controls over the Library's cash disbursement process. Although the Director reviewed and approved claims and related invoices before check disbursements were paid, the Board did not regularly review or perform an audit of claims, as required.

Library officials told us that the Board Vice President completes an audit of claims two months after the disbursements are made, but does not review canceled check images because the Library does not require its bank to return the images. This prevents the Vice President from verifying that all disbursements were made as intended and only for appropriate Library purposes. We examined 67 check disbursements<sup>6</sup> totaling \$34,321 and found that the Board did not audit and approve any of them prior to payment. However, with the exception of minor discrepancies that we discussed with Library officials, we found the claims were for legitimate Library purposes and had supporting documentation.

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<sup>5</sup> The Board may, by resolution, authorize payment in advance of audit for claims related to public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges.

<sup>6</sup> We requested and received check images from the bank.

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Furthermore, the Treasurer completes a bank reconciliation of the Library's main checking account, but does not reconcile the Library's four other accounts.<sup>7</sup> While the Vice President reviews this reconciliation, because it does not include canceled check images the reconciliation and review are insufficient.

In addition, during our review of Board minutes during our audit period, we did not find any evidence that the Board approved the hourly rates for three independent contractors who were paid four claims totaling \$2,266. Library officials told us the rates were verbally approved by the former Library Director. However, the Library did not have contracts with these service providers, and the Board did not pass any resolutions to indicate the agreed-upon rates.

Without Board approval of claims prior to payment and adequate supporting documentation to ensure all payments are appropriate, the Library has an increased risk that it could pay for unauthorized and unnecessary goods and services or that errors or irregularities could occur.

### **What Are Effective Controls Over the Payroll Vendor?**

Library officials may engage a private vendor to perform certain payroll preparation functions but may not delegate the custody of library funds and disbursement duties to that payroll vendor. Both GML and New York State Banking Law allow public libraries to contract with banks to deposit payroll money and subsequently disburse such funds.

However, there is no similar authority for allowing libraries to enter contracts with other private firms for depositing and disbursing payroll funds, accessing library bank accounts and transferring funds to the firm's own account for payroll. In addition, an electronic signature should be used only by the individual whose name it reflects or under that person's direct supervision.

As a good business practice, service providers should not be allowed to withdraw funds directly from the Library's bank account. In addition, an individual independent of the payroll process should review payroll disbursements reports after the processing is complete and prior to the disbursement of the payments. The Board should also require all vendors to submit detailed invoices in a timely manner that show fees charged for services provided.

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<sup>7</sup> The Library also has a savings account and two certificates of deposit. Most of the activity in these three accounts relates to adding interest as it is credited. The fourth bank account is a building fund account that is used for repairs and fundraising.

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## A Third-Party Vendor Has Access to Library Funds

The Library contracts with a third-party vendor (vendor) for payroll services and use of a credit card machine for processing the payment of fines and fees. This vendor has access to the Library's bank account. When the vendor finalizes the payroll, it directly withdraws the funds from the Library's bank account for disbursement to direct-deposit employees and respective taxing authorities and for its own fees. Likewise, when the vendor assesses the credit card fees or charges for the paper for the credit card machine, it directly withdraws the money from the Library's bank account.

The vendor also had full control of the Director's electronic signature and affixed it to paper payroll checks that were not directly deposited into employees' bank accounts. Further, Library officials did not review the payroll registers after payroll was processed and before funds were withdrawn. Allowing the vendor to directly debit the Library's operating account and affix the Director's signature to checks creates additional risk for inappropriate transactions to occur. Direct vendor access removes the ability of the Library to prevent irregularities from occurring.

During our audit period, the vendor initiated withdrawals totaling \$379,336 from the Library's bank account for employee direct-deposit paychecks, payroll withholdings and vendor fees and affixed the Director's signature to 38 employee checks<sup>8</sup> totaling \$13,685. The vendor also withdrew \$343 for credit card fees and services. Library officials have no way to determine whether fees were correct because the invoice was not detailed.

Library officials told us that salaries and wages are discussed and agreed upon each year by the Board in executive session. However, they were unable to provide us with any evidence of Board authorization for the salaries and wages paid during our audit period. When there is no documentation showing the salary and wages set by the Board, the Library has an increased risk that these officers and employees could be paid a different amount than the Board intended.

We reviewed 17 payroll-related disbursements totaling \$31,182 and one credit card-related disbursement totaling \$17 to determine whether the amounts withdrawn from the Library account by the vendor agreed with Board-approved pay rates for employees, hours reported worked and fees indicated in the vendor's contracts and found the following:

- We were not able to trace all payroll withdrawals and fees to the payroll register and bank statements because Library officials could not explain how vendor fees were calculated for payroll or for the credit card machine.

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8 The majority of Library employees have their pay directly deposited.

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- Because Library officials could not provide evidence of Board authorization for the salaries and wages paid, we could not determine whether all employees were paid the rates the Board intended. We did confirm that the hours on the timesheets submitted by the employees agreed to the hours paid by the payroll vendor during the months we reviewed.<sup>9</sup>
  - The vendor charged approximately \$2,600 in payroll fees during our audit period, which averaged about \$56 per pay period. Because the vendor withdrew its own fees without the Board reviewing the related claims, the Board was unable to determine whether the fees were of the correct amount and were for agreed-upon services.

The Treasurer told us that the vendor's contracts were initiated by the previous Director and that she was unaware of the agreed-upon contract terms. During our review of the contracts, we found they did not state an agreed-upon fee, but the charges for payroll appeared to be for the same amount monthly. Because Library officials did not review payroll registers prior to payment and did not know the amount of vendor fees paid, the Library has an increased risk that it could inaccurately pay employees and be charged erroneous fees and that errors or irregularities could occur.

## **What Do We Recommend?**

The Board should:

7. Audit and approve claims before disbursements are made.
8. Ensure all vendor agreements establish contract periods, describe services to be provided and document a clearly defined basis for determining entitlement to payments.
9. Ensure all claims have proper detail and support before authorizing them for payment.
10. Review canceled check images while verifying whether all disbursements were made as intended and only for appropriate Library purposes.
11. Authorize all salaries and wages provided to Library employees and pay rates for service providers and record official Board action related to such authorization in the minutes.

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<sup>9</sup> Refer to Appendix B for further information on our sample selection.

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12. Discontinue allowing third-party vendors to access the Library's bank accounts and maintain control of the Director's signature.

13. Require the Director to review and certify payroll reports.

14. Require the payroll vendor to submit detailed invoices in a timely manner, showing the fees charged for its services and audit the claims prior to payment.

The Treasurer should:

15. Reconcile all Library bank accounts on a monthly basis.

16. Contact the Library's bank and request that copies of the canceled checks be returned with the monthly bank statements.

# Appendix A: Response From Library Officials

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## Fulton Public Library

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March 9, 2018

Syracuse Regional Office  
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Dear Ms. Wilcox,

On behalf of the Fulton Public Library, I am responding to the *Fulton Public Library Cash Receipts and Disbursement Report of Examination* for the Audit period of July 1, 2015 through May 31, 2017.

It is our intent to show fiscal responsibility on every level and we appreciate your work on our behalf and on behalf of New York State taxpayers to ensure we do have adequate internal controls in place.

In response to the Audit findings, we agree overall with your report and have already taken action on some of the concerns and are still working on the best way to effectively address other recommendations that will be acceptable to all of us. These actions will be detailed in our Corrective Action Plan that should be in your hands very soon.

Here is something that should be noted. Upon reviewing Report Highlights on page 3 of the *Report of Examination*, there is an error in the “Quick Facts” box regarding the number of residents served by our library. Our tax funding base now incorporates a larger area than just the City of Fulton so our service population is 20,616 (as listed in our Annual Report) and not 11,402.

|                          |
|--------------------------|
| See<br>Note 1<br>Page 11 |
|--------------------------|

Please know that we appreciate the professionalism of the auditors as they worked on site last year. We understand the importance of protecting assets and improving fiscal responsibility in New York State.

Sincerely,

Carolyn Mosier, Fulton Public Library Board President

## Appendix B: OSC Comment on the Library's Response

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### Note 1

We changed our report to reflect the adjusted population.

## Appendix C: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Library officials and employees to gain an understanding of the internal controls and processes for cash disbursements and over-the-counter cash receipts.
- We reviewed 84 disbursements (67 nonpayroll and 17 payroll disbursements) to determine whether the Board audited and approved the payments and whether the payments were made to authorized individuals and vendors. We used a random number generator to select two months (August 2015 and September 2016) during our audit period, which included 76 disbursements. We also reviewed an additional eight disbursements paid during our audit period that included any disbursements totaling more than \$100 paid to the Director, Board members or the Treasurer or payments to individuals or vendors that we considered higher risk.
- We reviewed all withdrawals made from Library bank accounts during our audit period and traced them to invoices, payroll summaries or deposits into other bank accounts.
- We also interviewed the NCLS employee in charge of the automated Library circulation system regarding the system's ability to track over-the-counter cash receipts.
- We analyzed total over-the-counter cash revenues during our audit period for any trends.
- We compared over-the-counter cash recorded in the Library's accounting system to those entered in the Library's circulation system during our audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

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A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 the CAP available for public review in the Library Director's office.

# Appendix D: Resources and Services

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## **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

## **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

## **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

## **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

## **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

## **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf)

## **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

## **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

## **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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