



Dunham Public Library Claims Processing

Report of Examination

Period Covered:

October 1, 2013 — September 30, 2014

2015M-15



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 Library Board of Trustees governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Dunham Public Library, entitled Claims Processing. 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 Dunham Public Library (Library) is located in the Village of Whitesboro in Oneida County. The Library is a school district public library that received its charter from the New York State Board of Regents in April 1937 and is overseen by the New York State Education Department.¹

The Library is governed by a five-member Board of Trustees (Board), each of whom is elected by Whitesboro Central School District (District) voters. The Board is responsible for the general management and control of Library financial affairs. The Board appointed a Library Director (Director), who is responsible for the Library's day-to-day administration. The Treasurer, who is also appointed by the Board, is the custodian of all funds. The Library receives financial and payroll services through the District. Library appropriations for the 2014-15 fiscal year totaled \$1.1 million, which were funded primarily from real property taxes.

Objective

The objective of our audit was to examine the Library's claims auditing process. Our audit addressed the following related question:

- Did the Board conduct an effective audit of claims?

Scope and Methodology

We reviewed the claims auditing process for the period October 1, 2013 through September 30, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

Comments of Library Officials and Corrective Action

The results of our audit and recommendations have been discussed with Library officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Library officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the Library's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

¹ A school district public library is an autonomous entity (separate from the school district) and is established by the school district's voters, who vote on the Library's budget. The school district levies and collects taxes for and remits those taxes to the Library.

recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Director's office.

Claims Processing

New York State Education Law requires the Board to audit all claims prior to approving them for payment. The Board may not delegate the claims audit function to other officials. An effective claims audit should be deliberate and thorough. Such an audit helps ensure that each claim contains sufficient supporting documentation to verify compliance with Board-adopted policies² and that the amounts claimed represent proper Library expenditures. Each claim should be assigned a sequential claim number and included on an abstract of claims³ presented to the Board for audit. The abstract's approval should be documented in the Board minutes and Board members can also sign or initial the claims to further indicate approval.

The Board did not audit and approve any claims during the audit period.⁴ Instead, it entrusted the Director to audit and approve claims. The Board, in accordance with its bylaws, delegated the Library's treasury duties to the Director who was responsible for signing all checks, unless a payment totaled more than \$1,000.⁵ The Library also employs a principal clerk (clerk) who was solely responsible for entering information into the computer system.⁶

While the Director audited and approved certain types of Library claims, she generally indicated such approval by placing an asterisk on the claims. However, an asterisk does not provide sufficient evidence of approval because it could easily be applied by anyone and does not sufficiently identify the approver, as a signature or initials would. Additionally, the Director did not indicate the date of approval on the claims. The Board's delegation of its claims audit responsibility to the Director was inappropriate and was not in accordance with statute.

Our review of 48 claims totaling more than \$42,000 disclosed that the Director authorized the purchase of goods or services, approved these claims for payment and signed the checks to pay the claims. When the Board does not audit and approve claims, the Director has custody of an asset (in this case cash) and is able to authorize and approve cash disbursements, Library officials could pay for purchases that are not for proper Library purposes.

² The Library has a travel policy which governs lodging, mileage and travel reimbursement rates.

³ An abstract is a list of claims presented to the Board for approval.

⁴ The Director paid 436 claims totaling approximately \$588,000 during the audit period.

⁵ A second signature is required on these checks by one of two designated Board members.

⁶ The computer system generates the checks to pay the claims after the clerk enters the appropriate data.

In addition, the clerk did not provide the Board with an abstract listing each sequentially numbered claim, documenting the vendor or claim amount. Instead, the clerk gave the Board a monthly general ledger that showed the check dates, check numbers, payee names, brief payment descriptions and the payment amounts after the claims had already been paid. Informing the Board about claims paid after the fact prevents the Board from properly reviewing a claim before payment is made and precludes the Board from denying a claim's payment.

We examined 103 claims totaling approximately \$73,000 to determine if they contained adequate supporting documentation, followed applicable Library policies, were approved by the department heads and were for proper Library purposes. We also verified that the payees and the amounts paid on the canceled checks agreed with the claims and general ledger.

While our review did not disclose any inappropriate purchases, when the Board does not audit and approve claims, there is an increased risk that the Library could pay for goods and services that are not proper Library purchases.

Recommendations

The Board should ensure that:

1. Deliberate and thorough audits of claims are conducted, in accordance with statute, and that each claim is sufficiently supported.
2. Each claim is sequentially numbered and included on an abstract of claims.
3. The audit and approval of claims for payment is clearly documented in the minutes and recorded on the claims.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

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



Dunham Public Library

April L.R. Bliss, *Director*

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Board of Trustees

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Sally O. Swierczek, *Vice-President*
Patricia Samarco, *Secretary*
Susan M. Collver
R. Scott Smith

April 14, 2015

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
Syracuse Regional Office
State Office Building
Room 409
333 East Washington Street
Syracuse, NY, 13202-1428

Dear Ms. Wilcox,

Dunham Public Library is in receipt of the Draft Audit Report: Claims Processing, for the period of October 1, 2013 – September 30, 2014. We appreciate the guidance of the Office of the State Comptroller regarding the library's claims processing, and agree with the recommended improvements to our procedures.

Each year, the library undergoes an independent financial audit, and has developed internal controls that segregate duties such as administrative approval of claims, preparation of checks and the signing of checks, that we feel have safeguarded expenditures of the public funds, and which have satisfied our auditors. The draft audit report indicates that all payments reviewed were for appropriate library purposes and were supported by the proper documentation. We do recognize that some changes to our internal controls could provide added assurance that funds are properly expended, and as stewards of the public trust, that is a concept that we endorse.

An area for improvement pointed out by the draft report regards pre-audit payment of bills. In most instances, the primary purpose of pre-payment was to avoid incurring late charges. Each expenditure was supported with proper documentation, and subsequently approved by the board after the payment was made. Based on the draft report, and our conversations with the OSC auditors, we have taken action to improve these practices, as well as to include board approval of all expenditures in the meeting minutes.

Attached are specific responses to the recommendations included in the draft audit report, which, along with the above, will serve as our corrective action plan. We strive to operate Dunham Public Library according to best practices, and to the highest ethical and professional standard. Your guidance in helping us achieve this goal is appreciated.

Sincerely,

John H. Levitas, President

See
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Dunham Public Library

April L.R. Bliss, *Director*

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Susan M. Collver
R. Scott Smith

Recommendation 1: The Board should ensure that deliberate and thorough claims audits are conducted, in accordance with statute, and that each claim is properly sufficiently supported.

Plan of Action: The director will audit and approve all claims verifying proper and sufficient support. The Board will review and audit all underlying claims and documentation each month. The Board will audit the abstract of all claims.

Implementation Date: April 14, 2015

Person Responsible for the Action: The Principal Clerk, the Director and the Board

Recommendation 2: The Board should ensure that each claim is sequentially numbered and included on an abstract of claims.

Plan of Action: The Principal Clerk will sequentially number claims and include each claim on an abstract for the Board to review. All claims will be retroactively numbered to October 1, 2014, the beginning of the fiscal year.

Implementation Date: April 14, 2015

Person Responsible for the Action: The Principal Clerk, the Director and the Board

Recommendation 3: The Board should ensure that the audit and approval of claims for payment is clearly documented in the minutes and recorded on the claims.

Plan of Action: The following statement will become part of the Board of Trustee minutes. I certify that the claims listed above were audited by the Board of Trustees of Dunham Public Library on _____ and approved claims numbered _____ through _____ totaling _____.

Date: _____ Signature of Board Secretary or Trustee: _____

Implementation Date: April 14, 2015

Person Responsible for the Action: The Principal Clerk, the Director and the Board

APPENDIX B

OSC COMMENT ON THE LIBRARY'S RESPONSE

Note 1

The Board did not perform an audit of claims, either before or after these claims were paid.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Library's claims audit process for the period October 1, 2013 through September 30, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Library officials to gain an understanding of the claims audit and approval process and reviewed Board meeting minutes and related policies.
- We reviewed all 58 claims that cleared the bank during February 2014 and June 2014⁷ to determine if they contained sufficient supporting documentation, complied with Board-adopted policies, contained departmental approval, represented proper Library expenditures and were approved by the Board before payment. We also examined the related canceled checks and general ledger to ensure consistency with the claims.
- We reviewed 45 higher risk claims paid during our audit period selected from the general ledger. We considered higher risk claims to include payments made to Library officials, purchases from unusual or unknown vendors, checks written to petty cash and any credit card payments made for potentially questionable Library purchases. We reviewed the selected claims to determine if they contained proper departmental approvals and sufficient supporting documentation, were for proper Library purposes, complied with Board-adopted policies and were approved by the Board before payment. We also examined the related canceled checks and warrants to ensure consistency with the claims.

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.

⁷ We used a random number generator to select the test months of February 2014 and June 2014.

APPENDIX D

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