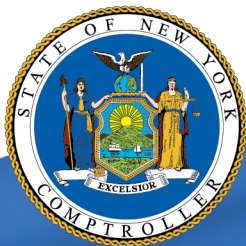


Webster Public Library

Board Oversight

SEPTEMBER 2018



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

Contents

- Report Highlights 1**

- Board Oversight 2**
 - What Is an Effective Claims Audit Process? 2
 - The Board Did Not Audit and Approve Claims Before Payment 3
 - Library Officials Did Not Ensure Procurement Policy Compliance. 4
 - What Is Effective Financial Oversight? 5
 - The Board Did Not Provide Adequate Oversight of Private Funds 5
 - What IT Policies Should the Board Adopt? 6
 - The Board Did Not Adopt Adequate IT Policies 6
 - How Should the Board Authorize Pay Rates? 7
 - The Board Did Not Formally Authorize Pay Rates. 7
 - What Do We Recommend? 7

- Appendix A – Response From Library Officials 9**

- Appendix B – Audit Methodology and Standards 10**

- Appendix C – Resources and Services. 11**

Report Highlights

Webster Public Library

Audit Objective

Determine whether the Board provided adequate oversight of financial operations.

Key Findings

The Board did not:

- Audit private fund claims and did not approve other claims before payment.
- Provide adequate oversight of private funds.
- Adopt sufficient financial and IT policies.

Key Recommendations

- Audit all claims, including private funds claims, before payment.
- Adopt additional financial and IT policies and review and revise the bylaws and policies.
- Ensure the Board receives sufficient financial information, including details of private funds.

Library officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Webster Public Library (Library) is a municipal public library located in the Town of Webster (Town) in Monroe County. The Library lends books, magazines, movies and compact discs to patrons with library cards and provides children, teen and adult programs.

The Library is governed by a seven member Board of Trustees (Board) appointed by the Town's governing board. The Board is primarily responsible for general oversight of the Library's financial affairs and safeguarding Library resources in accordance with its bylaws, relevant laws and policies. The Board-appointed Library Director (Director) is responsible for managing day-to-day operations.

The Town provides accounting services, such as payroll processing and bill paying, at the Library Board's direction, and Town employees prepare bank reconciliations for Library funds received from public sources (e.g., real property taxes). Library staff is responsible for accounting for private funds received from donations.

Quick Facts

2018 Budget	\$2.26 million
Residents	40,000
Employees	70

Audit Period

January 1, 2017 – April 19, 2018

Board Oversight

A board fulfills its oversight responsibility, in part, by auditing and approving claims, monitoring financial activity, and adopting and enforcing policies and procedures that establish and communicate to staff the manner in which to conduct day-to-day operations and ensure resources are properly safeguarded.

What Is an Effective Claims Audit Process?

New York State Education Law¹ requires the board to audit and approve all library claims before authorizing payment. This requirement applies to all claims, whether library officials pay them directly from private funds or a town employee pays them on the library's behalf with public funds. Furthermore, the board may not delegate its claims audit responsibility to one of its members or an employee. The board may authorize the payment in advance of audit for claims related to utilities, postage, freight and express charges, but must formally approve them at its next meeting.

An effective claims auditing process ensures that every claim is subjected to a thorough and deliberate review to determine whether each claim contains adequate supporting documentation, complies with statutory requirements and applicable policies and represents actual and necessary expenditures.

The Library's bylaws require the Board's finance officer (finance officer) to sign all vouchers (claims) before they are sent to the Town for processing and oversee the activity in the private funds account.² The Library follows the Town's procurement policy,³ which requires a purchase order (PO) for purchases exceeding \$800,⁴ verbal quotes for purchases from \$800 to \$2,999 and three written quotes for purchases from \$3,000 to \$20,000. The policy also provides that purchases may be made using NYS contracts awarded by the Office of General Services (State contracts) or contracts bid by other governments (i.e., county contracts) in lieu of obtaining verbal or written quotes. The claims audit process should ensure that purchases comply with these requirements.

1 New York State Education Law, Section 259

2 This account is referred to in the bylaws as the Webster Public Library special fund account, which consists of memorial gifts and other money not received from real property taxes or other public sources.

3 The Town's procurement policy complies with New York State General Municipal Law, which requires procedures to ensure that goods and services not required to be competitively bid are procured in a manner to ensure the prudent and economical use of public funds by facilitating the acquisition of goods and services of maximum quality at the lowest possible cost or best value basis.

4 Library books and materials, purchased from State or County contract, are excluded from the purchase order requirement.

The Board Did Not Audit and Approve Claims Before Payment

The Board did not establish sufficient policies or procedures for the claims audit process and did not comply with law or enforce the limited bylaw provisions. As a result, the Board did not properly audit and approve all claims before payment.

The entire Board did not audit claims and relied on the finance officer to audit claims before sending them to the Town for payment. The Board approved a report of these expenditures each month after payments were made. However, these reports did not include all expenditures paid by the Town on the Library's behalf, such as credit card charges, utilities and employee health insurance. Although the credit card claims were approved by the Director before being sent to the Town, they were not reviewed by the finance officer or the Board.

The Town received and paid the Library's utility and insurance bills, but did not provide them to the Board for prior review and approval. While Library claims are subjected to the Town's audit process, it is the Board's responsibility to ensure that claims represent actual and necessary Library expenditures through its own audit and approval process before forwarding them to the Town for payment.

We reviewed all 163 public fund disbursements totaling \$222,824 for four months during our audit period.⁵ We found that all of these disbursements were for appropriate Library expenditures and other than minor deficiencies, which we discussed with Library officials,⁶ were adequately supported. However, 46 disbursements (28 percent) totaling \$97,308 were not audited by the finance officer or the Board and 41 disbursements totaling \$62,115 were not listed on the report provided to the Board for approval.

In addition, neither the Board nor the finance officer audited or approved any disbursements from the private funds account. Due to the lack of controls over private funds account activity, we reviewed all 194 private fund disbursements totaling \$38,596 paid in 2017.

Three disbursements totaling \$2,099 were not adequately supported, which included one questionable \$500 payment to an employee for a partial tuition payment. The Board did not adopt a policy allowing tuition reimbursement and Library staff did not maintain any supporting documentation for this expenditure at the time payment was made. The Director later obtained and provided limited documentation upon our request, but provided no evidence that the individual attended and successfully completed the class.

⁵ Our review included 158 noncredit card disbursements totaling \$217,745 and five credit card disbursements for 86 credit card transactions totaling \$5,079. Refer to Appendix B for further details on our sample selection.

⁶ Two postage claims totaling \$215 and one \$30 credit card payment for domain registration were not adequately supported.

We also found that two employees were paid a total of \$1,355, from private funds (instead of through payroll), for conducting programs and were not issued a form 1099-MISC, as required for any such payments totaling \$600 or more. A circulation desk clerk was paid \$725 as compensation for services for conducting programs. The Director told us that programming was not part of this employee's regular job duties so they did not think it was an employee payroll related expenditure. Additionally, an assistant librarian was paid \$630 for program hours for a Library outreach program. The Director told us that this program was funded through a specific donation so the hours were paid from private funds.

Although our testing did not disclose significant deficiencies or evidence of fraudulent transactions, the lack of a thorough claims audit of all disbursements increases the risk that fraud or abuse could occur and not be detected and corrected in a timely manner.

Library Officials Did Not Ensure Procurement Policy Compliance

The Board did not adequately ensure that Library staff followed and documented compliance with the Town's procurement policy. For example, of five purchases that exceeded \$800 and required a purchase order, Library staff did not use purchase orders for four purchases (80 percent) totaling \$5,201 (for subscription services and audio books).

In addition, Library staff did not document the method of vendor selection for purchases requiring quotes. We reviewed the 15 purchases totaling \$35,550 made during four months of our audit period that required quotes. One \$6,196 payment for 14 desktop computers was appropriately documented as a State contract purchase. However, the claims for 14 purchases totaling \$29,353 lacked supporting documentation to determine whether quotes were obtained.

Library staff told us that 13 of these purchases were made using State contracts. However, they had no supporting documentation available, which should have been obtained at the time of purchase and presented with the claim for Board audit and approval. The remaining \$1,027 purchase of audiobooks was not purchased from a State contract and did not contain the required documented quotes.

Failure to thoroughly review claims and enforce compliance with Library policies and the Town's procurement policy increases the risk that staff could make unauthorized purchases or that the Library will pay more than necessary for required goods and services.

What Is Effective Financial Oversight?

It is essential for the board to receive and review monthly detailed reports of receipts and disbursements and to monitor the budget compared to actual revenue and expenditures throughout the year. All money collected by the library, including gifts or donations from private sources, should be handled in the same manner as funds from public sources, and should be included in the annual financial reports submitted to the New York State Education Department (SED) and the Office of the State Comptroller (OSC). The bylaws state that the finance officer is to analyze and report on monthly financial activities, oversee the private funds account and ensure that funds are reported on annually or as deemed necessary.

The Board Did Not Provide Adequate Oversight of Private Funds

The Board did not adopt a policy to address accounting for or the use, approval and reporting of private funds maintained by Library staff. The bylaws require the finance officer to oversee the private funds account, but do not provide specific guidance for how private fund disbursements should be handled or the reports and information to be provided to the Board. Additionally, the Board did not enforce the bylaws, because the finance officer did not oversee the private funds account. The absence of sufficient policies in these areas limited the Board's ability to oversee financial operations.

Library staff were responsible for receipt, disbursement and recordkeeping of private funds with no Board oversight. The Director authorized disbursements, one employee made all deposits, and another employee maintained the records and prepared bank reconciliations. However, the bank statements and reconciliations were not reviewed and cancelled check images, while accessible online, were not retained with the bank statements for review. Additionally, Library staff did not receive or review bank statements or cancelled check images for a dormant private fund bank account. Further, the Board did not receive detailed reports of account activity for these funds.

We reviewed all deposits to the private funds account for 2017 totaling \$47,200 and identified one questionable deposit to this account of a check written to the Town (not the Library) for a renovation reimbursement totaling \$7,463. The Director told us that the renovation expenditures were paid from the private funds account and provided us with a list of renovation expenditures that supported this reimbursement. However, the listed expenditures totaling \$8,077 were payments made by the Town from the public funds account. Therefore, the reimbursement should have been deposited in the Library's public funds account maintained by the Town.

We also found that the annual reports to OSC⁷ and SED did not include private fund activity or balances as required. The Town's finance director told us that Library officials did not provide the Town with any information for private fund activity. In addition, the report to SED had other errors and inconsistencies. For example, the 2017 SED report incorrectly included State aid of \$10,000, while 2017 State aid totaled \$22,375.

These errors and differences occurred because the Library staff member preparing and filing the SED report did not have the most up to date information from the Town, and no one independently reviewed the SED report before she submitted it. The Board cannot appropriately monitor financial operations without a complete picture of all Library activity.

What IT Policies Should the Board Adopt?

An effective process for safeguarding a library's IT system includes an acceptable computer use policy that defines the procedures for computer, Internet and email use and holds users accountable for properly using and protecting Library resources. The acceptable use policy should also include IT security awareness training requirements for staff. Additionally, the board should adopt policies and procedures for granting, revoking, modifying and monitoring individual access rights and a process to monitor and review these rights once granted.

To ensure the highest level of security over library data, the board should adopt policies and procedures for security management. New York State Technology Law⁸ requires local governments to establish an information breach notification policy. While libraries may not be subject to this law, it is in a library's best interest to adopt and implement such a policy.

The Board Did Not Adopt Adequate IT Policies

Although the Board adopted a patron acceptable use policy, it did not adopt IT policies addressing staff acceptable use, password management, user accounts, access rights, backups, hardware and software inventories, connecting personally owned devices to Library computers and breach notification. The Board also did not adopt a disaster recovery plan or provide users with cyber security training. The lack of IT policies for these functions increases the risk of unauthorized access or changes to data, theft of funds, or a costly disruption to operations and services.

7 Included as the Library fund portion of the Town's annual report to OSC

8 New York State Technology Law, Section 208

How Should the Board Authorize Pay Rates?

The board must authorize and approve all salaries and wages paid to library employees. The board should clearly stipulate employees' compensation in writing by resolution or in a policy document approved by resolution.

The Board Did Not Formally Authorize Pay Rates

The Board did not authorize salaries and pay rates. The Director told us that the Library follows the same increases in pay rates authorized for Town employees and that the Board did not formally authorize the pay rate schedule, but is informed of the increases that will be provided. We were unable to determine whether employees were paid as authorized because the Board minutes did not include the authorized pay rates. Without clear and defined guidance for employee benefits for all Library employees, there is no guarantee that they will receive the salary to which they are entitled.

What Do We Recommend?

The Board should:

1. Audit and approve all claims before payment.
2. Review programming services paid to employees from private funds and determine whether the services should be compensated through payroll.
3. Request and review detailed information for the private funds account activity.
4. Ensure that the renovation reimbursement identified in this report is repaid from the private funds account to the public account.
5. Review and revise the bylaws and financial policies to eliminate unclear provisions, and incorporate detailed guidance and procedures.
6. Adopt comprehensive IT policies and provide staff with cyber security training and training on the Library's policies.
7. Authorize salaries and pay rates and ensure the approvals are documented in the Board minutes.

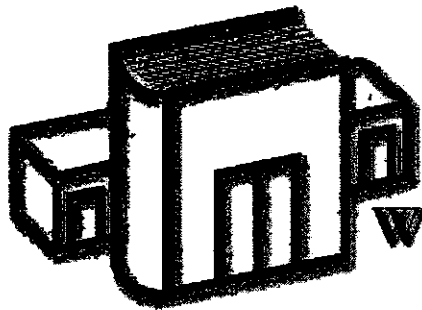
The Finance Officer should:

8. Oversee the private funds account in accordance with the bylaws.

The Library Director or designated staff should:

9. Ensure all disbursements are included on the reports to the Board.
10. Receive and retain bank statements including cancelled check images for the private funds account.
11. Review the annual SED report for accuracy before submission and ensure it includes all Library revenue and expenditures.
12. Issue 1099-MISCs for service providers paid \$600 or more in a year from private funds (or by voucher instead of through payroll).

Appendix A: Response From Library Officials



WEBSTER
Public Library

Webster Plaza ☎ 980 Ridge Rd. Webster, NY 14580 ☎ 585-872-7075 ☎ www.websterlibrary.org

August 20, 2018

██████████
Division of Local Government and School Accountability
Office of the State Comptroller
The Powers Building
16 West Main Street Suite 522
Rochester, NY 14614

Dear ██████████:

On behalf of the Webster Public Library Board of Trustees I would like to thank you and ██████████ for meeting with myself and Terri Bennett on August 15, 2018 to discuss the draft audit report 2018M-125.

The audit team has made some helpful observations and recommendations which will help the trustees to improve our oversight of the library. As we discussed, there are seven volunteer members on the Board of Trustees. After we have received the final report the board will determine how we can best respond to the recommendations cited to improve our oversight of library operations.

Again, thank you for your assistance to the Webster Public Library and we look forward to receiving the final report.

Sincerely,

Anthony E. Hubbard
President, Webster Public Library Board of Trustees

Appendix B: Audit Methodology and Standards

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 and Town officials and employees and reviewed policies, bylaws and Board minutes to gain an understanding of Library operations.
- We reviewed the Library's accounting records and reports to determine if all necessary records and reports were accurately prepared in a timely manner.
- For four randomly selected months from the audit period we reviewed all 158 non-credit card disbursements totaling \$217,745 and all 86 credit card transactions totaling \$5,079 to determine whether officials maintained adequate supporting documentation, complied with Library policies and bylaws and the Town's procurement policy and expenditures were appropriate.
- We reviewed all 194 private fund disbursements made during 2017 to determine whether adequate supporting documentation was maintained and expenditures were appropriate.
- We reviewed receipts for all 2017 private fund account deposits.
- We tested payroll payments for a randomly selected month during the audit period to determine whether hours paid were supported by timesheets, pay rates were authorized by the Board and employees were appropriately paid.

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 relevant population size and the sample selected for examination.

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's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

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#lgmg

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

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

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

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

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

Contact

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