



Internal Control for Public Libraries

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The logo of the Indiana State Library is circular with a blue border. Inside the border, the word "INDIANA" is written in gold at the top and "STATE LIBRARY" at the bottom. The center features a gold lamp of knowledge with rays emanating from it, set against a background of an open book. Below the lamp, the text "EST. 1825" is written in gold.

Former director embezzled tens of \$1,000 from library accounts. Defrauded the library for the duration of 12 months. That is not the only story in the news where an individual betrays the public trust of the people. But we comfort ourselves and say that will never happen in our organization, I know everybody and they are honest. We trust our employees. There is always risk where a person is put in a position where they have the opportunity. And when they betray that trust, it is a public relations nightmare. This presentation outlines the library and management considerations for practical procedures to implement internal controls, to minimize risk and safeguard the physical assets of the library. It is not all inclusive. Every libraries situation is different and that is why a template for internal controls cannot be drafted for each library to craft their own.

## Slide 2

### IC 5-11-1-27(i)

- Adoption of Internal Control Standards and Procedures required
  - Audit requirement
- Fiscal Office certifies in writing and in AFR in early 2017
  - Resolution on LDO resolution webpage  
[www.in.gov/library/3289.htm](http://www.in.gov/library/3289.htm)
  - [Resolution To Adopt Internal Control Policy](#)



The discussion of internal controls begins with the Indiana Statute. The internal controls are a statutory requirement and this will be audited. The statute requires the fiscal officer at the library certifies that the library has a policy and that staff received training. I include links to a resolution that is an internal document and not a requirement. The statute states the library officially certifies in the Annual Financial Report that the library implemented the policy and training; this is an external certification that shows the public library is in compliance with the statute.

## Definition: Internal Control

- System of Procedures and Cross-Checking to Prevent loss through theft
- In absence of collusion, minimizes likelihood of misappropriation of assets or misstatement of accounts
- Maximizes likelihood of detection of malfeasance
- Does not prevent embezzlement but allows it to be discovered and identity of perpetrator known



Internal controls require segregation of duties in public libraries. It is not always easy to come up with more than one person to handle the money, but it is necessary to minimize risk. Please call on one of the board members to assist in tracking the library receipts, disbursements, investments and reconciling bank statements.

And remember that anyone that handles library money needs to be bonded.

## Organization Objectives

- Strategic plan and goals
- Effective and efficient operations
- Reliable reporting
- Compliance with laws and regulations



An organization can emphasize the importance of ethics and internal controls at staff meetings, and demonstrate that everyone follows the rules, all the time. Lead by example. The management of the library hires and trains staff that carry out their responsibilities and follow the written procedures that comply with the law.

## Reporting Objectives

- Financial reports – external
- Management and fiscal body has information it needs to make sound decisions and evaluate performance of library
- Compliance with laws and regulations
- Safeguards assets



The public library reports its financial performance in the Annual Financial Report. The receipts and expenditures are officially recorded and can be accessed by the public.

Gateway Budget is a record of the libraries budget, how they plan to spend the financial resources.

The two reports in the Gateway can be compared to track a library units financial activities.

Audits reveal where the errors are in reporting whether they are procedural, training mistakes or malfeasance.

## Safeguard Assets

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities



When the State Board of Accounts presented the topic of internal controls at the Bookkeeping Workshop in November 2015, the breakdown was into five areas. And I will go over the areas as they relate to public libraries. Again what follows is not all inclusive. Each library has their policies and procedures to insure internal control and the library's policy provides the details.

## Control Environment

- Fiscal body exercises oversight
- Management recruit, develop and retain competent individuals
- Management
  - Organizational structure
  - Assign responsibility
  - Delegate authority
  - Evaluate performance



The Control Environment is in place to provide a system of checks and balances insuring that no one person has control of all financial transactions. Beginning with the budget, the responsible staff compares the plan to actual figures on monthly basis; Review variances  
Consider organization with two check signers  
Treasurer, bonded  
Board member, bonded  
In this discussion, we consider the division of duties for a small organization. It is best to have separation of duties at the least between two people, the treasurer and a board member. The outline that follows is basic controls and should not be considered all-inclusive.

## Set the control environment

- Bank statements are reviewed by the board
- No library records are kept in staff or trustee's homes
- Treasurer attends all board meetings
- Policies and procedures have been developed, written down and govern all transactions
- Management must use time sheets, get approval for travel expenses, have credit card scrutinized
- Receipts are required for expense reimbursement



Blue Avocado, Five Internal Controls for the Very Small Nonprofit, January 6, 2010. <http://www.blueavocado.org>

The bank statement should be given unopened to someone on the board who does not handle the money. Reconciling the bank statement is probably the chief safeguard against embezzlement.

The purpose of this control is to insure that there is a complete record of all receipts and disbursements. If an organization receives "cash" receipts, no part of this cash should be used to pay its bills. The receipts should be deposited, and checks issued to pay expenses. In this way, there will be a record of the total receipts and expenses of the public library on the bank statements.

In addition their needs to be accurate recordkeeping for time sheets, travel and credit cards. Note: the State Board of Accounts Accounting Manual for Public Libraries provides a thorough list of required recordkeeping.

## Design Physical Controls

- Lock money up
- Staff computers should be secured and have passwords
- Checks should be in a locked location



What are the physical controls? The obvious way to protect public libraries physical assets is to lock them up.  
Do you have a list of capital assets of computers? This is part of accurate recordkeeping to determine loss if one goes missing. What if there is a robbery? Library needs an accurate list of the assets for an insurance claim.

## Risk Assessment

- Management
  - Defines risk and risk tolerance
  - Consider potential for fraud
- Identify, analyze and respond to significant changes that could impact internal control system



Risks result from both external and internal sources.  
These change over time based on economic, regulatory, and operating conditions  
Risk Assessment must link identified policy objectives to specific risk factors  
Identify what can go wrong follows; again these are examples and the list is not exhaustive.

## Cash Disbursements: What can go wrong

- Payments could be made to fictitious vendors
- Disbursements could be made for the wrong amount
- Duplicate payments could be made on an invoice
- Disbursements could be recorded in the wrong period



What can go wrong with cash disbursements? You need to identify how this can happen given the official procedures. On the slide are examples of procedures that maybe were not followed. The organization needs to implement corrective action through better procedures and better training.

## Control Activities

- Maintain books, records, and accounts which, in reasonable detail, accurately and fairly reflect the company's transactions; and
- Devise and maintain internal controls sufficient to provide reasonable assurance that:
  - Transactions are executed in accordance with management authorization;
  - Transactions are recorded as necessary to (a) permit preparation of financial statements in conformity with GAAP and (b) maintain accountability for assets;



Control activities are the recordkeeping procedures. Control is exercised through accountability and is one of accuracy. The public libraries need to have 100% certainty in the truth of the recordkeeping. It is paramount for the organization to emphasize ethical behavior and following procedures.

## Control Activities Continued

- Devise and maintain internal controls sufficient to provide reasonable assurance that:
  - Access to assets is permitted only in accordance with management authorization; and
  - Recorded accountability for assets is compared with the existing assets at reasonable intervals, and appropriate action is taken regarding any differences.



Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements that may result in incorrect decision making.

Some examples of bad choices: Fund goes negative, spending without appropriation. These errors may be indicative of something more serious.

## Information and Communication

- The way in which information within the library is gathered and shared, both to people within the library responsible for financial reporting, and to external users of financial reports.
- This component is known as Information and Communication.



The public is informed about the library's budget and financial transactions through the public side of the Gateway. This is external reporting. The Gateway now has a button that generates a report of fiscal health indicators for a local government unit. So the data the local unit inputs results in a variety of outputs. These are examples of external reporting. Other reporting is the monthly reports at board meetings regarding finance.

## Financial Reporting

- Treasurer provides
- No prescribed form
- For example, could include
  1. A report by fund showing the previous month's ending balance, total receipts for the month, total disbursements for the month, and the balances at the end of the month.
  2. A report by budget classification showing the currently approved appropriations, disbursements in each appropriation to date, and the appropriation balance.



The treasurer is either an employee on staff or a board member. Their role is to report monthly to the library board on receipts, disbursements and what remains. The library board is the fiscal authority, making sure money is spent for what is authorized by statute. And though library may have the ability to spend money, it can't be spent without an appropriation.

## Monitoring

- Monitor activities and evaluate results
- Remediate deficiencies



The controls discussed in this presentation are basic ones and should not be considered all-inclusive. A complete system of internal control encompasses all of the procedures of the organization. If the organization is a large or complex one, or if it has peculiar problems or procedures, the board will want to retain the services of a professional to help set up and monitor the effectiveness of internal control.

**Setting a standard of high accountability is actually the best safeguard.**



“Setting a standard of high accountability is actually the best safeguard.” I will close with this remark. So it begins with emphasis of ethics accompanied by internal controls that manage public funds.

## Resources

1. Blue Avocado, Five Internal Controls for the Very Small Nonprofit, January 6, 2010. <http://www.blueavocado.org>
2. “Finance Matters: Best Practices in Managing Library Funds,” Vermont Department of Libraries presentation downloaded from Slideshare.net on December 15, 2015.
3. Gross, Malvern J. Jr. et al. Financial and Accounting Guide for Not-for-Profit Organizations: Sixth Edition, NY: John Wiley, 2003.
4. “Small government internal controls,” Presented by Donna Collins, Milestone Professional Services, presentation downloaded from Slideshare.net on December 15, 2015.



There are many resources out there, and it can seem overwhelming to identify what is relevant to your organization. You can look at through the lens of a small non-profit, though you are a political subdivision. Here are some resources I found helpful.