

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

ST. JOSEPH COUNTY PUBLIC LIBRARY

ST. JOSEPH COUNTY, INDIANA

January 1, 2017 to December 31, 2018



FILED
10/09/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Debra Futa	01-01-17 to 12-31-19
Treasurer	Nancy L. Korpai	01-01-17 to 12-31-19
President of the Library Board	August R. Freda Jr. Alan B. Feldbaum	01-01-17 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE ST. JOSEPH COUNTY PUBLIC
LIBRARY, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the St. Joseph County Public Library (Library), for the period from January 1, 2017 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Library. It should be read in conjunction with our Financial Statement Audit Report of the Library, which provides our opinion on the Library's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 22, 2019

ST. JOSEPH COUNTY PUBLIC LIBRARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

There were deficiencies in the internal control system for the Library related to financial transactions and reporting. The Library had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and financial reporting. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

Cash and Investments

There was no control in place at the Library over cash and investments. The Library's payroll bank account was reconciled; however, there was no date on the reconciliation worksheet to indicate when the reconciliation was performed. There was also no review of the payroll bank account reconciliation by anyone other than the preparer. We were unable to verify whether the bank reconciliations were performed timely after each month-end.

The Library and three local libraries have a joint bank account, which was not reconciled monthly. The account held money for online transactions for the Library, as well as the three other local libraries. The bank statements were addressed to the Library, where an employee allocated the money in the account between the various libraries based on their individual patrons' transactions.

Receipts

There was no control in place to oversee the receipt process. There are nine library branches in addition to the main library. Receipts were issued from the receipt software used at each location, but a receipt number was not listed on the receipts. Receipt numbers were generated from the Library's accounting software, not the receipt software used at each branch. The money received from the branch libraries was deposited the following day, but a receipt was not issued from the accounting software until the following day or later when the designated employee was at work.

Disbursements - Payroll

There was no control in place to ensure that payroll disbursements were accurate. One employee was responsible for all aspects of the payroll process. That employee entered rates of pay, made any manual adjustments for vacation and sick time, and issued payments to employees. There was no documented review over the biweekly payroll disbursements.

Financial Reporting

The Library did not have a control in place to ensure accurate financial reporting. There was no review process for year-end financial information compiled and submitted to the Indiana Gateway for Government Units financial reporting system.

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

ST. JOSEPH COUNTY PUBLIC LIBRARY
AUDIT RESULTS AND COMMENTS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 1)

ERRORS ON CLAIMS

Debt Payments

Three of the four Accounts Payable Vouchers (APVs) for debt payments tested were not signed by the fiscal officer, either on the APV or on the invoice, to indicate approval.

Disbursements

Of the 46 claims tested, 19 were not approved by the fiscal officer or person who received the goods either on the invoice, requisition voucher, or on the APV. Furthermore, all of the APVs that were tested (46) were not signed by the fiscal officer, which would have certified that the invoice was correct.

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

ST. JOSEPH COUNTY PUBLIC LIBRARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

We were unable to verify whether the Library had ensured that its employees received training on internal control standards adopted by the Library. Employees were not required to sign a certificate or any other form of documentation to confirm that they had received the internal control training.

Indiana 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

State Board of Accounts
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OFFICIAL RESPONSE

September 4, 2019

The St. Joseph County Public Library would like to respond to a discussion comment received during our Exit Interview held on August 22, 2019. The Field Examiner took exception with how the library handles the receipt of payments made at the 10 service desks throughout our system. Because our cash register system does not issue receipt numbers that can be tracked throughout the handling process to the entry in our Key Fund accounting software system she found it difficult to track the actual receipts. We asked both her and her supervisor what systems did they know of that could handle this level of detail or if any other larger public libraries were tracking receipts from the point of sale through the accounting system and neither could give us an example.

Here is the process we have chosen to implement along with our reasons for doing so.

A daily sales report from the cash register and the receipts deposit is sent to the Main Library the next day. We realize this is a delay but we have chosen this delay to verify the deposit and correct any errors found by a second person check of the sales receipt and deposit.

An employee of the Central Business Office reviews the deposit from the branch and verifies it is correct. This gives us the opportunity to notice mistakes and gather information to correct the problem. She then combines all of the branch deposits into a total deposit amount for the day. She enters all of the separate locations' deposits onto a combined spreadsheet and completes a deposit slip for our accounting software.

Another employee of the Business Office then enters the deposit for the day into the accounting software. This employee uses the number of the Deposit Slip in our Deposit Record Book as the Deposit number in the Accounting Software. An entry for a daily deposit can be tracked from all the branches to the entry in our system. It was suggested we have the first employee enter these numbers in the Accounting Software in order to complete the entry in the same day. (Occasionally the Accounting Software entry is delayed when the other employee is off work. It is usually entered within a day if she is working.)

As part of our Internal Controls, the Library has chosen to have a second person enter the branch deposits into the Accounting Software in order to provide another cross check of the balance. With the addition of credit card payments and the associated fees, it is more important than ever to verify that part of the deposit and check it against not only the daily report but the bank deposits as well. We have discovered several errors handling the entry of deposits in this manner and find it is easier to identify the error in advance than to try to back out an incorrect entry and replace it with a correct entry.

We understand that in an ideal world the deposits for each location would be made the day of or day after the funds were receipted. We do have a regular deposit schedule with daily weekday deposits. Using our methods, we believe our tighter Internal Controls are more important to the Library than the need to deposit the next day.

Thank you for allowing us to express our reasons for the Internal Control procedures we have implemented.

Regards,

Nancy L. Korpala
Chief Financial Officer

ST. JOSEPH COUNTY PUBLIC LIBRARY
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2019, with Nancy L. Korpai, Treasurer; Debra Futa, Director; and Christine Pochert-Ringle, Vice President of the Library Board.