

KDLA April 2011 Trustee Tip of the Month How Can Trustees Reduce Fiscal Liabilities?

Quick Tips

- ◆ All Trustees have the responsibility to ensure that library funds are properly secured and managed.
- ◆ It is recommended that checks have two signatures to prevent errors, misappropriations, or fraud.
- ◆ Having the Board Treasurer be one of the signators on checks will help to ensure that this duty is in compliance with the Attorney General's advice to KDLA.
- ◆ Adopt financial management practices that provide for a "segregation of duties."
- ◆ It is very risky to have the Treasurer sign blank checks. Comparison of checks with proper documentation ensures good internal control of funds.
- ◆ Remove the names of Trustees no longer on the board from the list of approved check signatures.
- ◆ Use only consecutively numbered checks and keep unused checks locked up at all times.
- ◆ Consider having an annual "review" of the financial records if an audit is not required.
- ◆ Review the *Recommendations for Public and Non-profit Boards* to check management practices that would pass an audit performed by the State Auditor.

While each Board Trustee is charged with the duty of ensuring that all library funds are protected from loss and used appropriately, the Treasurer has the official custody of all monies, securities, and obligations that the library possesses. The Treasurer is responsible to disburse funds for charges on itemized vouchers that have been approved by the Board. In addition, the Treasurer is responsible to make sure that all financial records are fully and accurately kept and all required reports are submitted on time. [[KRS 173.360 \(2\)](#); [KRS 173.540 \(1\)](#); [KRS 173.755\(1\)](#)]

There are several steps that all Trustees can take to ensure that their part of this fiscal duty is effectively accomplished. One of the most important steps is for each Trustee to review the monthly voucher and financial statements carefully and ask for more information to answer any questions he/she may have on charges that are unclear before approving the voucher.

While the law allows for the Treasurer to disburse money as prescribed in the bylaws, a letter from the Attorney General's office to KDLA advises us that the Treasurer is considered a ministerial office and that the check-signing duties of that office cannot be delegated to bookkeepers, employees, or other Board officers. The Attorney General based this advice on the rulings in *McQuillin Mun. Corp., Vol. 17, §48.15 (3rd Ed.)*, *McQuillin Mun. Corp., Vol. 15, §42.16 (3rd Ed.)*, and *McQuillin Mun. Corp., Vol. 15, §42.11 (3rd Ed.)*. If the Treasurer is not signing the checks for library expenses and purchases, it is advisable to get legal advice from your attorney on this issue.



A good practice in internal controls is to require two signatures on checks. When signing checks, the supporting documentation, invoices, or purchase orders should be compared for accuracy. Two signatures on the checks provides another internal control that indicates deliberate attention has been paid to whom the payment is made, how much has been paid, and when it was paid. Mistakes are more easily caught and there is better control in expending funds with two signators. Demonstrating diligence in maintaining control of the library's funds and assets will help to ensure public confidence.

The practice of having the Treasurer sign blank checks, while convenient for everyone involved, allows a high level of risk for errors, misappropriations, or fraud. This creates a situation in which funds are expended without proper approvals and causes the best internal controls to be ineffective. Don't allow friendships or a high level of trust prevent you from following good business practices of financial management.

In addition to proper check-signing procedures, there are other practices that ensure a high level of fiscal security and provide safeguards that protect both the Trustees and the Treasurer in fiscal matters. As the standards of accountability for collecting and spending tax dollars keeps rising, it is important to be able to demonstrate that sound financial management practices are being utilized.

One of the most common recommendations is to follow procedures that provide for a "segregation of duties." By separating the custody of assets, the approval of transactions, and the reporting of transactions to different people in the financial process it allows errors, misappropriations, or fraud to be detected and prevented. For example, the bookkeeper may prepare the checks while the Director may handle the bank reconciliation and the Treasurer signs the checks.

Also important is the removal of the names of Trustees who are no longer on the Board from the list of approved signatures with the banks or financial institutions with which the library does business. Other steps of internal control are to use consecutively numbered checks so that any missing checks can be easily detected and explained, and to ensure that all unused checks are locked up at all times.

It is required that audits are performed for all libraries in a timeframe based on the amount of annual revenue or expenditures. For those libraries that are required to have an audit every four years, it is a good idea to have an auditor do a "review" of your financial records annually to catch problems early and apply remedies. The auditor can alert the Director and Board of Trustees to any vulnerabilities or weaknesses in the library's financial management practices.

A good resource to review is the *Recommendations for Public and Nonprofit Boards* provided by the KY Auditor of Public Accounts. This is available online at: <http://auditor.ky.gov/cpatools/Pages/32BoardOversightRecommendations.aspx>

This document will provide guidelines that will help in designing and implementing internal controls that will provide the appropriate management of library funds.

This is not legal advice and I am not an attorney. If you feel you need legal advice you should consult an attorney.

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