



Public Library Financial Management Internal Controls Information Sheet

Internal controls are a set of processes and procedures, or checks and balances, that are put in place to help safeguard the assets of the library; achieve proper conduct of business; and ensure financial integrity. Strong internal controls will help keep the library in compliance with laws and regulations, promote efficiency, and will reduce the opportunity for fraud to occur. Library boards set the standards and official policies for internal controls, but the ultimate responsibility for good working internal controls and procedures rests with management in the day-to-day operations of the library. As local government units, libraries are required to follow all Michigan Department of Treasury standards and the governmental accounting standards Board (GASB) guidelines.

Accounting Practices include five components of Internal Controls

- Control Environment – the processes and standards set by management.
- Risk Assessment – identification of where there is risk in your library, both internally and externally.
- Control Activities – policies and procedures to mitigate the identified risks.
- Information & Communication – sharing of information on processes and procedures and on daily activities to ensure all staff are aware of how internal controls should and are working.
- Monitoring Activities – regular evaluation of processes and current situation to confirm the controls in place are indeed mitigating the identified risks.

Internal control issues can lead to audit findings. Payroll errors can result in fines. While having full-time financial staff is not feasible for many libraries, having internal controls is feasible. What internal controls look like depends on the library establishment and staffing. However, responsible management of public funds requires some level of internal controls.

So what do the five components of internal controls look like in practice?

- Control Environment – Library board and director directly address how funds are managed in staff manuals and in day-to-day interactions, setting the tone for the library staff.

-
- Risk Assessment – Library board and director understand how money flows through the organization, which staff are included in managing funds, and how staff manage funds day-to-day.
 - Control Activities – The library has the required financial policies approved by the Board. The library has written procedures for which staff members' job duties include handling funds and how those duties are completed.
 - Information & Communication – Staff know of the policies and procedures. At least annually these policies and procedures are reviewed by management with staff in a staff meeting.
 - Monitoring Activities – Staff procedures include occasional checks on financial activities. The library board and director review the policies and procedures periodically, but especially when a new person is hired who has financial duties or when financial duties are moved to a different staff member.

What then are the basic processes of Internal Controls?

The basics of internal controls is to have clear policies and procedures and to separate duties that could lead to inefficiency, waste or fraud if done by any one staff member. Indispensable duties or duties vulnerable to abuse should be divided into separate steps and assigned to different staff members. There are four basic financial functions that should be separated.

1. Authorization – approves orders, time sheets, etc.
2. Custody – has access to cash, checks, etc.
3. Record-Keeping – documents orders, incoming revenue, payments made, etc.
4. Reconciliations – reconciles deposits and payments with accounts

Effective steps to do this include:

- The library has policies and procedures for receiving, managing, and expending funds.
- No staff member may spend library funds without approval from a supervisor.
- No staff member may approve invoices for payment from orders they made.
- No staff member may both approve or make payments and balance library accounts.
- No staff member may count cash without another staff member present to confirm the deposit amount.
- The library board receives regular reports of financial activities. Monthly is preferred.

The library board receives audit reports (annual or biannual).

Resources:

Library of Michigan - Public Library Financial Management Guide, Chapter 10

<https://www.michigan.gov/libraryofmichigan/libraries/admin/financlmngmnt>

Michigan Municipal League Handbook for Municipal Officials, Chapter 18

https://mml.org/pdf/resources/publications/ebooks/HMO_by_chapter/CH%2018%20Authority%20and%20Internal%20Controls.pdf

State of Michigan, Department of Treasury – Fiscally Ready Communities Program

https://www.michigan.gov/treasury/local/cefd/news/fiscally-ready-communities-program#anchor_1662475835335

7/13/2023