



Miller Place Union Free School District

Check Signing

Report of Examination

Period Covered:

July 1, 2015 – November 30, 2016

2017M-76



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Miller Place Union Free School District, entitled Check Signing. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Miller Place Union Free School District (District) is located in the Town of Brookhaven in Suffolk County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates two elementary schools, one middle school and one high school with approximately 3,200 students and more than 600 employees. The District's expenditures for the 2015-16 fiscal year were approximately \$66 million, funded primarily with State aid, real property taxes and grants.

The Board has delegated its claims auditing responsibility to a claims auditor. The claims auditor reports directly to the Board and is responsible for formally examining and allowing or rejecting all accounts, charges, claims or demands against the District. The Board has appointed a District Treasurer (Treasurer) who is responsible for the receipt, custody and disbursement of District funds, including check signing. The Board has authorized the District Clerk to sign checks in the Treasurer's absence. In the 2015-16 fiscal year, the District issued 11,498 payroll checks (11,091 direct deposit and 407 actual checks) totaling \$33.1 million and 2,591 disbursement checks totaling \$16.9 million from the general fund.

Objective

The objective of our audit was to examine the District's check signing procedures. Our audit addressed the following related question:

- Did the Treasurer adequately safeguard his electronic signature?

Scope and Methodology

We examined the District's check signing procedures and a sample of disbursement checks for the period July 1, 2015 through November 30, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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 size of the relevant population and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our recommendations and indicated that they were taking corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law (Education Law) and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review in the District Clerk's office.

Check Signing

Education Law requires the Treasurer to sign all checks issued on behalf of the District. District officials are responsible for establishing policies and procedures to ensure the check signing process complies with Education Law. The Board, at its discretion, may require that checks be countersigned by another District officer, including a Board member. In addition, the Board may, by resolution, designate a Deputy Treasurer or Board member (other than a Board member authorized to countersign) to sign checks in the absence or inability of the Treasurer or other official whose signature is required. The Board may authorize the use of a signature flash drive to imprint checks with required signatures. To adequately safeguard and prevent unauthorized use, the Treasurer and other District officials should maintain custody of their signatures and directly supervise the check signing process.

The Board has adopted an authorized signatures policy which authorizes the Treasurer to sign all checks. The policy also authorizes the District Clerk to sign disbursement checks in the Treasurer's absence. Further, the policy authorizes the use of a signature flash drive to imprint District checks with the required signatures and requires that either the Treasurer or the Assistant School Business Official (ASBO) be present and control the affixing of the Treasurer's signature when checks are run.

The Treasurer does not maintain custody of his signature, or supervise the application of his signature during the check signing process. Instead, the ASBO maintains custody of the flash drive that contains the Treasurer's signature. Furthermore, while the Board has authorized the District Clerk to sign checks in the Treasurer's absence, the District Clerk does not have her own signature flash drive and is not involved in the check signing process.

To use the signature flash drive, the accounts payable and payroll clerks sign a log maintained by the ASBO, then insert the signature flash drive into the check printing station and, once prompted by the check signing software, enter the user name and password to imprint the signature onto the checks prior to the claims audit and Treasurer's review. The clerks then put the signed checks in the safe and return the signature flash drive to the ASBO, who subsequently locks it in her drawer.

Neither the Treasurer nor the ASBO are present during the payroll or disbursement check signing process. Copies of the checks are attached to the claims packets or payroll sign-in sheets to be reviewed by the

claims auditor and verified by the Treasurer. The School Business Official told us that it is difficult for the Treasurer to be present when checks are signed because he has another full-time job.

As a result of this weakness, we examined 30 disbursement claims¹ totaling \$777,339, and all six payroll checks not direct-deposited in July 2016, totaling \$3,069, to determine if checks were for legitimate District purposes. Although we found no exceptions, when the Treasurer does not retain control of his electronic signature, there is an increased risk his signature could be used to generate unauthorized checks.

Recommendations

The Board should:

1. Amend its authorized signature policy to require the Treasurer to maintain custody of his signature flash drive.
2. Ensure that anyone authorized to sign checks in the Treasurer's absence does so with their own signatures.

The Treasurer should:

3. Maintain custody of his signature flash drive.
4. Discontinue the practice of allowing his electronic signature to be affixed to checks without his direct authorization or supervision.

¹ See Appendix B for detailed methodology.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

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VIA Email and Certified Mail/Return Receipt

June 5, 2017

Mr. Ira McCracken
Chief Examiner, Division of Local Government and School Accountability
Office of the State Comptroller
New York State Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Re: New York State Comptroller's Office Audit of Check Signing

Dear Mr. McCracken:

The Miller Place Union Free School District Board of Education and District Administration is in receipt of your office's draft audit report regarding *Check Signing, Report of Examination 2017M-76*, completed by the Office of the State Comptroller ("OSC") for the period July 1, 2015 – November 30, 2016. This document serves as the School District's response and corrective action plan to the draft report.

We would like to take this opportunity to extend a thank you for the time and effort your staff has devoted in the Miller Place Union Free School District. This audit was conducted by your staff with professionalism and we found your auditors to be communicative, experienced, and knowledgeable regarding financial controls. The OSC auditors reviewed numerous financial controls and processes of the District before deciding on *Check Signing* as the audit subject. This audit was conducted in the spirit of partnership which is beneficial to the school district, state and community. The District appreciates the recommendations of the Office of the State Comptroller and will take corrective action to ensure that best practices are implemented in all aspects of the District's operations.

The audit reviewed and tested the cash disbursement process including: district policies, district controls and logs, applicable laws, payment claim packages, check warrants, bank reconciliations, cancelled disbursement checks, personnel agendas, payroll checks, salary notices and cancelled payroll checks included in the period reviewed. The District issued 2,591 disbursement checks, 407 payroll checks, and 11,091 payroll direct deposits during the audit period and a test sample of these items were requested by the OSC auditors for review.

The audit revealed an area for improvement to further strengthen our strong internal controls. With reference to the specific audit recommendations, the report recommends to the District the following:

1. Amend its authorized signature policy to require the District Treasurer to maintain custody of his signature flash drive
2. Ensure that anyone authorized to sign checks in the Treasurer's absence, does so with their own signatures.

The Treasurer should:

1. Maintain custody of his signature flash drive.
2. Discontinue the practice of allowing his electronic signature to be affixed to checks without his direct authorization or supervision

The District had mitigating controls in place to reduce the control risk as follows:

1. The District Treasurer stamped and signed each warrant certifying the check numbers that he reviewed and prepared for mailing.
2. A log of checks issued is maintained by the Claims Auditor and District Treasurer.
3. The electronic signature log was maintained by the Assistant School Business Official for the District Treasurer.
4. The District Treasurer prepares the monthly bank reconciliations for each bank account.
5. All District checks \$10,000 and over require a second signature and were hand signed by another authorized check signer.

The District understands the OSC is recommending stronger controls and will implement the following corrective action plan.

Please allow the following to serve as the District's *Corrective Action Plan* regarding this audit report and its recommendations which will be implemented and completed during the 2017-18 school year:

1. The District Treasurer will either be present to affix his electronic signature, use a signature stamp that he maintains custody of, or hand sign the District checks.
2. The District will amend the District's Authorized Signatures Policy accordingly.

In summary, the Miller Place School District Board of Education and Staff were eager to cooperate with your office to strengthen our sound and financially responsible School District. The District thanks the OSC for the opportunity to respond to the draft audit report. The District strongly supports the audit process and welcomes all efforts to make certain that its financial practices serve the taxpayers of the community and maintain the public's confidence in our financial operations.

Sincerely,

Dr. Marianne F. Cartisano
Superintendent of Schools

CM:RR # 7013 0600 0000 3194 1263
c: New York State Education Department – Office of Audit Services
Members of the Miller Place UFSD Board of Education
Mr. Seth Lipshie, Deputy Superintendent
Ms. Colleen Card, School Business Official
Ms. Patricia Morbillo, District Clerk
Mr. Chris Reino, CPA, Cullen & Danowski, External Auditors
Mr. Darin Iacobelli, CPA, Nawrocki Smith, Internal Auditors
Mr. Richard Seidell, CPA, Claims Auditor
Mr. Donald Pearce, CPA, District Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed key personnel to obtain an understanding of the cash disbursement process.
- We reviewed the applicable laws and District policies to gain an understanding of the check signing process.
- We judgmentally selected 30 claims to test. We first selected 15 checks (five checks each from the November 2015, December 2015 and January 2016 bank statements, totaling \$731,886) to trace from the cancelled check to the claims and warrant. We then randomly selected another 15 claims from the cash disbursements journal totaling \$45,453 to trace from the warrant to cancelled check.
- We selected all six payroll checks not direct-deposited in July 2016, totaling \$3,069, and compared them to employee salary notices and bank statements to ensure they were all valid checks made to valid District employees.

We conducted this performance audit in accordance with 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.

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