



Copiague Union Free School District

Check Signing

Report of Examination

Period Covered:

July 1, 2013 – April 30, 2015

2015M-181



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

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 Copiague 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 Copiague Union Free School District (District) is located in the Town of Babylon, Suffolk County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District Treasurer (Treasurer) is appointed annually by the Board and is the official custodian of all funds, authorized to sign all checks on behalf of the District. Payroll checks are signed by both the Treasurer and the District Clerk.

The District operates four elementary schools, one middle school and one high school, with approximately 5,000 students and 850 employees. The District's budgeted expenditures for the 2015-16 fiscal year are \$112.5 million, which are funded primarily with State aid, real property taxes and grants. The District processed 7,300 general disbursement checks during the audit period totaling \$8.9 million.

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 and District Clerk adequately safeguard their electronic signatures?

Scope and Methodology

We examined the District's check signing procedures and a sample of disbursement checks for the period July 1, 2013 through April 30 2015.

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

generally agreed with our findings and indicated they plan to initiate 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 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 a check signature policy which authorizes the Board President, District Clerk or Treasurer to sign all checks, with the exception of payroll checks. Payroll checks can only be signed by the Treasurer and District Clerk. Although the policy permits any one of three individuals to sign the disbursement checks, Education Law requires the Treasurer to sign all checks. Further, the policy does not authorize a Deputy Treasurer or another Board member to sign disbursement checks in the Treasurer's absence. The policy also authorizes the use of a signature flash drive to imprint District checks with the required signatures.

The Treasurer and District Clerk do not maintain custody of their signature or supervise the signature being imprinted on the checks during the check signing process. Instead, the District's accounts payable and payroll clerks maintain custody of the signature flash drives that house the Treasurer's signature for disbursements and both the Treasurer and District Clerk's signatures for payroll checks. The accounts payable and payroll clerks insert the signature flash drives into their computers and, once prompted by the check signing software, enter a user name and password.

We observed the payroll clerk print 1,736 payroll checks totaling \$3,627,477 using the flash drive with the Treasurer's and District Clerk's signatures. Neither the Treasurer nor the District Clerk were present to supervise the imprinting of their signatures on the payroll checks. We also reviewed 50 disbursement checks¹ totaling \$111,198

¹ See Appendix B for population and sample selection methodology.

to ensure they were for legitimate District purposes. We found no exceptions.

Because the Treasurer and District Clerk do not maintain custody of their signatures or supervise the check signing process, there is increased risk that their signatures could be used to generate unauthorized checks.

Recommendations

The Board should:

1. Amend the District's check signature policy to require the Treasurer to sign all checks in compliance with Education Law.
2. Authorize a Deputy Treasurer or a Board member to sign payroll checks in the absence or inability of the Treasurer or other official whose signature is required.

The Treasurer and any other official whose signature is required should:

3. Maintain custody of their signature flash drives and supervise their use.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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

COPIAGUE PUBLIC SCHOOLS



Dr. Kathleen Bannon, Superintendent of Schools
Peter H. Michaelsen, Assistant Superintendent for Finance & Operations

October 1, 2015

Ira McCracken
Chief Examiner
NYS Office Building
Room 3A10
250 Veterans Memorial Hwy.
Hauppauge, NY 11788-5533

Re: Response to Audit on check signing covering the Period July 1, 2013 – April 30, 2015

Dear Mr. McCracken,

The District Audit Committee has reviewed the draft audit report at their September 21, 2015 meeting. The findings contained in the audit have been previously shared with our Board of Education, Central Administrative Team and Business Office staff.

The audit and a detailed corrective action plan are to be accepted at our October 5, 2015 Board of Education meeting. The resulting corrective actions include changes to our Board of Education Policy and procedural changes in the Business Office. These changes address both supervision and back up coverage for staff charged with the printing of District checks.

The changes in Board of Education Policy and Business Office procedure have been implemented in August and brings complete closure to the issues raised.

Your audit team were respectful in their requests and interacted professionally in all contact with the District. The Board of Education, members of the Administrative Team and Business Office have benefited from this audit.

Sincerely,

Peter H. Michaelsen
Assistant Superintendent for
Finance and Operations

PHM/ng

cc: Audit Committee

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Treasurer and District Clerk adequately safeguarded their electronic signatures for the period July 1, 2013 through April 30, 2015. To achieve our audit objective and obtain valid evidence, we performed the following audit procedures:

- We interviewed key personnel to obtain an understanding of the check signing process for disbursement and payroll checks.
- We reviewed the District's policies and procedures related to the check signing process.
- We reviewed Education Law pertaining to check signing authority.
- Out of a population of 7,294 checks totaling \$80,046,388, we selected a sample of 50 disbursement checks totaling \$111,198 to determine if they were for legitimate District purposes. We selected the 50th and 100th check from each of 22 monthly bank statements in our audit period. We judgmentally selected an additional six checks, based on vendor name or dollar amount, from a disbursement history report of all checks issued during the audit period.
- We observed the payroll clerk print 1,736 payroll checks totaling \$3,627,477 using the signature flash drive.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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Gabriel F. Deyo, Deputy Comptroller

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