



North Merrick Union Free School District Treasurer's Duties

Report of Examination

Period Covered:

July 1, 2011 — May 31, 2013

2013M-366



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	4
TREASURER’S DUTIES	5
Recommendations	7
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

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 North Merrick Union Free School District, entitled Treasurer's Duties. 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 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 North Merrick Union Free School District (District) is located in the Town of Hempstead, Nassau County. The District is governed by a Board of Education (Board) which comprises 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 day-to-day management of the District under the direction of the Board. 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. Additionally, the Board has authorized the District Clerk to sign checks in the Treasurer's absence.

The District operates three schools for kindergarten through sixth grade with approximately 1,250 students and 272 full time employees. For the fiscal year ended June 30, 2013, the District expended \$26.2 million. Appropriations budgeted for the 2013-14 fiscal year were \$28.9 million, funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to examine the Treasurer's duties. Our audit addressed the following related question:

- Does the Board ensure that the Treasurer's duties and responsibilities are discharged in accordance with legal requirements and District policies?

Scope and Methodology

We evaluated the performance of the Treasurer's duties and responsibilities for the period of July 1, 2011 through May 31, 2013. In addition, we tested internal controls over the District's information technology (IT) system during our audit period. Our audit identified areas in need of improvement concerning IT controls. Because of the sensitivity of this information, the vulnerabilities we found are not discussed in this report but have been communicated confidentially to District officials so they could take corrective action.

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 is included in Appendix B of this report.

**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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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.

Treasurer's Duties

Education Law and District policy establish the Treasurer as the custodian of all District moneys, responsible for depositing such moneys in designated banks and disbursing them generally only upon receipt of a signed warrant or certified payroll. Therefore, the Treasurer is responsible for the disbursement of all moneys, including through electronic transfers, and is authorized to sign all checks issued on behalf of the District. 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 Board member (other than a Board member authorized to countersign) or a Deputy Treasurer to sign checks in the absence or inability of the Treasurer. However, Commissioner of Education Regulations prohibit the Board from appointing the same individual as Treasurer and District Clerk, just as Education Law prohibits any Board member from holding the office of Treasurer. The Treasurer is required to provide the Board with monthly financial reports and bank reconciliations. District policy requires the Treasurer to attend all Board meetings.

The Board did not ensure that the Treasurer's duties and responsibilities were discharged in accordance with legal requirements and District policy. The District Clerk was inappropriately authorized to sign checks in the Treasurer's absence and, in fact, signed all District checks in place of the Treasurer. This did not comply with Education Law or District policy. Additionally, the Assistant Superintendent for Business and a Senior Account Clerk routinely approved and performed wire and electronic transfers without the Treasurer's approval, further weakening internal controls over disbursements. By usurping the Treasurer's disbursement functions, the Board has diminished an important segregation of functions designed to help ensure that District funds are properly expended.

Authorized Signatures – Each year at its organizational meeting, in addition to appointing the Treasurer and authorizing her as the sole signatory on all District checks, the Board authorizes the District Clerk to sign checks in the Treasurer's absence. However, Education Law provides only for a Deputy Treasurer or designated Board member to serve in this capacity. Moreover, our tests of the 2,969 checks issued during the audit period, totaling approximately \$49 million, confirmed that all checks were signed by the District Clerk, and none were signed by the Treasurer. Therefore, the Board did not designate a proper official to sign checks in the absence or inability of the Treasurer and failed to properly monitor the exercise of the

check signing function. The Treasurer's duties and responsibilities in this area were improperly curtailed when the Board allowed the District Clerk to routinely sign all District checks. By allowing the District Clerk to sign all checks as a sole signatory, the Board inappropriately allowed the appearance that this individual was also acting as Treasurer with respect to the disbursement function.

Authorization of Electronic Transfers – General Municipal Law¹ allows a school district officer to disburse or transfer funds by electronic transfer, provided that the governing board has entered into a written agreement with the bank prescribing the manner in which electronic transfers will be accomplished. Electronic transfers are subject to all other applicable laws, such as those relating to the audit of claims. The governing board also must adopt a system of internal controls for the documentation and reporting of electronic transfers.

Electronic transfers provide a means of direct access to the moneys held in the District's name. Appropriate controls over electronic transfer activity should include proper authorization of a transaction before the transaction is initiated; itemized documentation to support the purpose, source, destination and amount of the transaction; and documentation to appropriately account for and record the transaction. As custodian of all District moneys, the Treasurer is responsible for disbursing District moneys. However, the Board has authorized the Assistant Superintendent for Business and a Senior Account Clerk to routinely perform electronic transfers. We found that the Assistant Superintendent for Business approved, and a Senior Account Clerk performed, all electronic transfers.² We examined eight transfers made during the two months³ tested, totaling \$7,243,512, and determined that they were for proper District purposes. However, by allowing individuals other than the Treasurer to perform electronic transfers, the Treasurer's duties regarding custody of funds were further curtailed, which increases the risk of erroneous or inappropriate transfers of funds to occur.

Attendance at Board Meetings – District policy and Commissioner of Education Regulations require the Treasurer to provide the Board with detailed statements of moneys received and disbursed. District policy also requires the Treasurer to attend all regular Board meetings. We found that, while the Treasurer did prepare the required financial reports, she did not attend any of the District's 22 regular Board meetings held during the audit period. Because the Board did not

¹ General Municipal Law Section 5-a

² During the audit period, the District processed 123 electronic transfers from the general fund, totaling approximately \$71 million.

³ See Appendix B, Audit Methodology and Standards, for detailed information on our selection process.

ensure the Treasurer’s attendance at regular meetings, the Treasurer was not readily available to respond to any concerns the Board may have had regarding financial reports. This can inhibit the Board’s ability to provide necessary and adequate oversight over the District’s finances.

Recommendations

1. The Board should discontinue the practice of allowing the District Clerk to sign District checks as the primary and sole signatory.
2. The Board should ensure that any alternate signatory it may designate is one that is allowable under Education Law. The Board should ensure that this designee does not sign checks on a regular basis, but only in the Treasurer’s absence or inability.
3. The Treasurer – or in the absence or inability of the Treasurer, a Board-designated Deputy Treasurer or a Board member – must sign all District checks and execute all electronic transfers.
4. The Board should enforce its requirement that the Treasurer attend all regular Board meetings or revise its policy to require attendance upon request.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



David S. Feller
Superintendent of Schools

March 5, 2014

District Response to Comptroller's Audit

The North Merrick Union Free School District is grateful for the guidance and assistance provided by the Office of the State Comptroller and believes the recommendations in the Comptroller's Audit will help ensure that the District's operations reflect best practice. The School District is very pleased to note that the audit contains no findings of fraud, misappropriation of funds, or financial wrongdoings. As such, the District is in agreement with the recommendations.

The North Merrick Union Free School District remains committed to transparency in its business operations and pledges itself to implement all the Comptroller's recommendations. A Corrective Action Plan will be submitted within the timeframe allowed which will address the four recommendations.

Sincerely,

David S. Feller
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We interviewed appropriate District officials to obtain an understanding of the organization and the accounting system and reviewed pertinent documents, such as District policies and procedure manuals, Board minutes and financial records and reports. Further, we reviewed the District's internal controls and procedures over computerized financial databases to help ensure that the information provided by such systems was reliable.

After reviewing the information gathered during our initial assessment, we evaluated the District's internal controls for the risk of potential fraud, theft or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the duties and responsibilities of the Treasurer. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We examined the minutes of the Board meetings for the period of July 1 2011 through May 31, 2013 to determine whether the Treasurer attended Board meetings.
- We used a random number generator to select two months and, for those two months, reviewed bank statements and all documentation supporting the electronic transfers made from the general fund checking account to determine who prepared, approved and completed the transactions.
- We reviewed copies of all canceled checks paid from the general fund during the audit period to determine who signed the checks.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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