



Long Beach City School District Controls Over Cash Receipts

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-145



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2016

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 Long Beach City School District, entitled Controls Over Cash Receipts. 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 recommendation 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 Long Beach City School District (District) is located in Nassau County. The District encompasses the communities of East Atlantic Beach, City of Long Beach, Lido Beach and Point Lookout. The District is governed by the Board of Education (Board), which is composed of 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 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 Chief Operating Officer is responsible for overseeing the District's Business Office and supervising staff who maintain the District's financial accounting records and process the District's cash¹ receipts and disbursements. The Treasurer is the custodian of District funds and is responsible for receiving, disbursing and recording District moneys.

The District operates six schools with approximately 3,800 students and 1,000 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$132.4 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

Objective

The objective of our audit was to assess controls over cash receipts. Our audit addressed the following question:

- Are controls over cash receipts collected by the payroll clerks appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined the District's controls over cash receipts collected by the District's payroll clerks for the period July 1, 2014 through December 31, 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.

¹ Cash includes checks, currency and money orders.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendation 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 recommendation and indicated they have taken, or plan to take, 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 recommendation 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.

Controls Over Cash Receipts

District officials are responsible for establishing internal controls to ensure that cash receipts are adequately safeguarded. An effective system of internal controls provides reasonable assurance that all funds received by the District are deposited into a District bank account in a timely manner and properly recorded. A well-designed system of controls should include policies and procedures that address all cash receipt phases including collecting, recording and depositing, as well as ensuring that all phases related to processing cash receipts are properly segregated so one individual does not receive and record cash transactions. Delays in depositing and recording cash receipts and a lack of segregated duties make cash more susceptible to theft or loss.

The District's receipts include cash, checks and money orders for various programs operated by the District and other organizations that are allowed to use District property. For example, cash is collected for cafeteria sales, retiree healthcare payments, school trip fees and fees paid by outside organizations using District property. With the exception of real property tax revenues and state and federal funding, the District's payroll clerks (clerks) generally receive cash collected by the District. Clerks may receive cash directly from the payee and through the mail. However, other District staff may collect cash initially and then remit it to the clerks for deposit. For example, students may need to pay for a field trip. A District employee delivers this cash to the clerks to record and deposit.

To determine if the District's controls over its cash receipts were designed and working effectively, we examined cash receipts totaling approximately \$151,000.² While we found the District adequately segregated the cash receipt duties, we found certain controls could be strengthened to ensure that cash collected by the District is protected from misappropriation, loss or theft and is deposited timely.

The District did not establish formal, written cash receipt policies and procedures. We found that cash receipts are kept in an unlocked and unattended cabinet. The cabinet used to store the District's cash receipts is not locked during business hours. Because the cabinet is located in a corridor outside the Treasurer's and clerks' offices, neither party has a direct line of sight to the cabinet and, therefore, cannot monitor the cabinet. As a result, someone entering the corridor may not be noticed and would have access to the cabinet's contents, including cash that has not been deposited.

² See Appendix B for more information.

In addition, the clerks do not always log cash receipts into the cash receipts log when it is received. Twelve cash receipts totaling \$7,975 were deposited before a clerk recorded receiving the cash in the District's cash receipts log. We examined 24 deposit slip items and found nine cash receipts were deposited before they were recorded in the cash log. We also found three of 100 cash log entries were deposited before they were recorded in the cash log and two checks totaling \$376 were stored in the unlocked cabinet and were not recorded in the cash receipts log. In addition, two cash receipt items totaling \$340 were not deposited in a timely manner. The checks were deposited after 33 days.

According to a District official, the clerks' payroll responsibilities are a higher priority than the cash handling duties. As a result, they may not always immediately log cash collected in the cash receipts log when it is received. In addition, the Treasurer said if she does not know which fund the cash should be deposited into, she will keep the cash until she knows how to account for it. As a result of these weaknesses, there is an increased risk of cash collected by the District being misappropriated, lost or stolen.

Recommendation

1. District officials should develop written policies and procedures for handling cash receipts. Such procedures should include, but not be limited to, requiring that cash collected is secured when not being accessed, ensuring that cash is immediately logged into the cash receipts log when it is received and ensuring deposits are made in a timely manner.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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David Weiss
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Michael I. DeVito
Chief Operating Officer

July 7, 2016

Ms. Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

*Re: Long Beach City School District
Report of Examination: "Controls over Cash Receipts"*

Dear Ms. Singer,

I write in response to the preliminary draft findings in the Report of Examination entitled "Controls over Cash Receipts" sent to Roy J. Lester, President, Board of Education, Long Beach City School District. Mr. Weiss, Superintendent of Schools, with authorization from Mr. Lester, directed me to respond to you on behalf of the Superintendent and Board of Education.

It is reassuring to know that the audit team feels that the district has strong controls in place and did not find any fraud, theft, loss or misappropriation of funds. It is noteworthy that the audit team did not find anything of concern when they conducted the initial risk assessment so they selected the area of "cash (includes currency, money orders and checks) receipts" because it is typically a high risk area for school districts. Before I provide the district's response to some of the specific findings and recommendations contained in the Report of Examination, I want to express my appreciation in learning the details of some of the findings so that the district can strengthen controls in these areas.

It is important to note that the district's central business functions are still located throughout several district buildings because the district's administration building was severely damaged during Super Storm Sandy. The new administration building is not yet ready for occupancy. The temporary offices for the District Treasurer and Payroll are located in administrative space above the Lindell Elementary School gymnasium. The offices above the gymnasium are tucked away from the flow of people. In order to access these offices, a visitor must use a separate stairway far away from the main door.

Since these offices are not really a part of the main school building, the risk of a visitor walking into the area in order to access the storage cabinet is extremely low. Although I agree that the storage cabinet in which checks, money orders and cash are stored until a bank deposit is made should be locked at all times, the cabinet was indeed locked during the evening hours or when all three staff members were out of the office during the day. The storage cabinet was only left unlocked when a staff member was in the office. Prior to Super Storm Sandy, currency, money orders and checks were stored in a locked drawer in a safe in the administration building. The new administration building will also contain a safe so that our standard process to safeguard cash, money orders and checks will be used again.

The District agrees that all the currency, money orders and checks should be posted to the cash receipts log immediately. The regular practice of the Payroll Clerks is to log cash receipts prior to deposit. In terms of the twelve cash receipts totaling \$7,975, the District agrees that the Payroll Clerks should have posted the receipts in the cash receipt log before the District Treasurer deposited the funds into the bank. The Payroll Clerks and the District Treasurer understand the importance of logging cash receipts prior to deposit in all cases. In the instances when the District Treasurer made a deposit before the cash receipt was posted to the log, the Payroll Clerks counted any cash prior to the deposit as part of the amount verification process. In regard to the two checks found in the storage cabinet but not included on the log, staff explained that the two checks had just been received and were stored in the cabinet until later in the day when the Payroll Clerks were going to post the receipts to the log.

Regarding the timeliness of deposits, it is important to state that I have already instructed all district staff members to submit the currency, money orders and checks that they receive to the Payroll Office immediately. In addition, staff have been directed to follow up quickly on accounting questions so that the district does not hold onto any funds for an extended period of time. The District agrees that the two checks that the District Treasurer received on January 9, 2015 should have been deposited long before February 12th.

As corrective action in furtherance of the requisite Corrective Action Plan, the district plans to modify its existing policies and procedures in order to make them more explicit and formal relating to handling “cash receipts”. The modified policies and procedures will clearly state that collected currency, money orders and checks must be logged immediately, secured in a locked compartment and deposited in a timely manner. The district will conduct staff training on the proper procedures consistent with the audit findings and recommendations. Since the day that the on-site examiner pointed out to the District Treasurer and Payroll Clerks that the storage cabinet should be locked at all times, the staff have followed this directive. Until the business offices return to the new administration building, the Accounting Supervisor will spot check to ensure that the cabinet is locked. In addition, the Accounting Supervisor will spot check the logs and deposit slips in order to mitigate the identified risk.

Again, I want to thank you for the audit findings regarding “cash receipt” transactions for the period of July 1, 2014 to December 31, 2015 that will allow us to improve our internal controls moving forward. I also want to commend the audit team for their professionalism during the audit process.

Very truly yours,

Michel I. DeVito
Chief Operating Officer

C: Superintendent of Schools
Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and staff to gain an understanding of the District’s policies and procedures associated with the cash receipt process.
- We observed cash receipt processes, procedures and controls in place at the District including, but not limited to, cash storage security and cafeteria receipts deposit procedures.
- We selected a judgmental sample of 10 cash logs from throughout the scope period. Further, we selected a judgmental sample of 10 items listed on each cash log, for a total of 100 receipts (totaling \$145,000). We traced the receipts from the cash log to deposit slips, to bank statements and then to the amounts recorded in the District’s records. We determined whether the information was complete, amounts were accurately recorded and deposits were timely.
- We selected a judgmental sample of 10 deposit slips, consisting of a total of 24 separate line items totaling \$5,800, to determine whether items deposited by the District were complete, that deposits were accurately recorded in the cash log and that deposits were made in a timely manner.
- We selected five days in the school year using a judgmental sampling method to review cafeteria cash receipts. Further, we used a judgmental sample to select one register for each of the six schools, for a total of 30 separate items tested to determine if receipts were accurately and completely recorded. We obtained information from the point-of-sale system and traced the amounts and bank bag numbers to deposit slips, cash logs and bank statements to determine whether information was accurate.
- We reviewed IT controls over the cash log and accounting software for accounts receivable. We determined whether permissions were limited to specific users and that each user had read or edit access, depending on their job description.

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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