

Plainedge Union Free School District
Internal Audit Report On Cash Management



Board of Education
Plainedge Union Free School District
241 Wyngate Drive
North Massapequa, NY 11758

We have been engaged by the Board of Education (the “Board”) of the Plainedge Union Free School District (the “District”) to provide internal audit services with respect to the District’s internal controls related to the cash management operations for the period July 1, 2021 through December 31, 2021.

The objectives of the engagement were to evaluate and report on the District’s internal controls pertaining to the cash management operations and to test for compliance with laws, regulations, and the District’s Board policies and procedures.

In connection with the following procedures, we have provided findings and recommendations for the internal controls related to the cash management operations. Our procedures were as follows:

- Reviewed the District’s policies, procedures and practices, with regard to the cash management operations;
- Interviewed key District employees involved in the operations of the District’s cash management operations and processes;
- Reviewed the District’s written job description for a District Treasurer and compared the job description to the actual duties of the District Treasurer.
- Reviewed the District’s annual reorganization meeting minutes, which stated the Board authorized the signature of the District Treasurer on all District checks for payment of salaries and authorized the signature of the Deputy Treasurer in the absence of the District Treasurer. Compared the annual reorganization meeting minutes to the signature cards maintained at the banking institution(s).
- Reviewed the New York State Comptroller Office of Unclaimed Funds website and searched for any reported unclaimed funds with the District’s name.
- Reviewed the District’s cash flow statements to determine if the District is properly monitoring cash flow and verify the following:
 - Cash flow statements are prepared timely and accurately.
 - The cash flow statements have been submitted to the Board for approval.
- Reviewed bank reconciliations to verify the following:
 - Bank reconciliations are performed timely and reviewed and approved by an individual other than the preparer.
 - The account balances are accurate and agrees to the Treasurer’s report.
 - The book balance on the bank reconciliations agree to the general ledger.

ISLANDIA: 3033 EXPRESS DRIVE NORTH, SUITE 100 • ISLANDIA, NY 11749

WHITE PLAINS: 50 MAIN STREET, SUITE 1000 • WHITE PLAINS, NY 10606

PHONE: (631) 234-4444 • FAX: (631) 234-4234

- Old outstanding checks and reconciling items are reviewed for reasonableness.
- Reviewed the District petty cash accounts that are provided to different administrators and departments within the District to determine if the District is properly monitoring petty cash accounts and maintaining supporting documentation.
- Reviewed the District's procedures surrounding collateral to determine if the District is properly monitoring collateral and verified the following:
 - Collateral schedules are prepared timely and accurately.
 - The collateral schedule has been submitted to the Board for approval and included in the Treasurer's report.
 - Amounts per the collateral schedule agree to the bank statements and collateral statements.
- Obtained a sample of wire transfers to determine the District is properly maintaining supporting documentation and there are proper approvals.

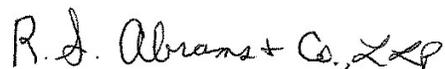
The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to cash management operations, and we do not express such an opinion. As you know, because inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

This report is intended solely for the information and use of the Board, the Audit Committee and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,



R.S. Abrams & Co., LLP
January 27, 2022

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CASH MANAGEMENT OVERVIEW

A successful cash management system consists of maintaining fully documented policies and procedures which enable a school district to make informed and efficient cash management or investment decisions. These policies and procedures should be communicated to school district staff and to banking institutions to promote a clear understanding of the District's expectations. The District should also develop internal controls surrounding the safeguarding of cash.

Numerous bank accounts can complicate effective control of cash and require many interbank transfers. The number of bank accounts established by the District should be consistent with legal requirements and good business practices. The District has twelve bank accounts in the following funds: general fund, school lunch fund, federal fund, capital fund, trust and agency fund and expendable trust fund.

Investments

A sound investment and cash management system should ensure that sufficient liquidity is available to support operations, and that investments follow the statutory framework established for school districts in New York State. Protecting funds requires procedures to ensure the safety of investments and deposits while maximizing earnings on funds that are not required for current operations. It is the school district's responsibility to understand the compliance requirements relating to investment limitations and safeguarding of investments and deposits.

The District is responsible for maintaining the safety and liquidity of cash and cash equivalents thereby limiting the number of investment options available. School districts are authorized to invest funds temporarily in the following:

- Time deposit accounts in a "bank" or "trust company" located and authorized to do business in New York State;
- Certificates of deposit issued by a "bank" or "trust company" located and authorized to do business in New York State;
- Certain types of obligations such as, bonds, notes issued by United States, the State of New York, and New York State local governments.

School districts are not permitted to invest funds in money market mutual funds, and stock or bonds of private corporations. School districts are also not authorized to make deposits or invest in savings banks, savings and loan associations and credit unions.

Online Banking

The District utilizes online banking services to monitor bank balances, interest rates, and investigate any unusual activity. The District also performs electronic funds transfers ("EFT") which are financial transactions that involve an electronic computerized telecommunications link to perform direct deposit of payroll, wire transfers, and automated clearing house ("ACH") debits and credits.

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Electronic Fund Transfers

Transferring funds electronically is a simple way to initiate payments via the internet over a secure portal between the bank and payee. The payee information including the name of the payee, amount, account number, and any other required information is input and then the bank processes the transfer directly to the receiver's bank.

The District's employees must complete a direct deposit authorization form to set up an electronic connection between the District's bank account and the employees' bank account. Once payroll is processed, the Payroll Supervisor creates a direct deposit file listing the employees and check amounts and uploads the file to a secure banking website. After the file is uploaded, the Treasurer verifies the information is accurate and releases the file. The Payroll Supervisor prints an *ACH Pass-through Confirmation*, noting the total batch and the total dollar amount accepted. After the file is submitted, if a direct deposit is rejected due to an employee closing their bank account the bank notifies the District via fax. The Payroll Supervisor contacts the employee to reissue them a check and update the direct deposit information.

The amount due each employee is to be disbursed or credited in accordance with the directions of each employee to savings or checking accounts. Funds are immediately transferred from the District's bank account to the employees' account twice a month. New York Banking Law §96-B states every bank has the power to enter into contracts with school districts to receive in a single payment, for each pay period, the total payroll of the school district.

Banking Security

As technology progressed, it has become easier to produce high-quality fraudulent checks. For school districts to mitigate the risk of fraudulent checks, the banking industry has developed fraud prevention tools:

- Positive pay - a reconciliation service provided by banks, comparing checks that it receives for payment against the record of the checks issued by the District. If the bank receives a check that does not match the data file sent by the District, including date, check number, and amount, the District is sent notification.
- Payee positive pay – is an enhanced positive pay service that requires the validation of the payee name in addition to validating the date, check number, and amount.
- Reverse positive pay – is a service that provides the school district with a daily checks paid information report that could be matched against an internal check issue file.
- ACH blocks and filters – prevents an outside entity to process an ACH transfer and remove funds from a checking account without prior permission. ACH blocks prevent all disbursements from an account and ACH filters prevent disbursements that do not match a list of pre-authorized transactions.

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- Reconciliation tools – allows the District to extract information from the bank or have information sent from the bank that assists the District in performing monthly reconciliations of the bank accounts. The bank may also provide a tool that completes a reconciliation of the account and produces detailed reports of the reconciled items.
- Intra-day access – allows the District to view bank transactions that occur at various times throughout the business day. The information is accessed via online systems provided by the bank, as well as through other methods including fax, email, and direct transmission of data from the bank to the government's computer systems.
- Universal payment identification codes – codes that are used instead of the District's bank account numbers so the District's account numbers are not disclosed.

Cash Flow Projections

To effectively manage cash and investments school districts should prepare and maintain a monthly cash flow projection. A cash flow projection provides an estimate of the amount of cash that will be available for investment during the fiscal year and on a month-to-month basis. Cash flow projections are most effective when it covers a twelve month budget period or fiscal year.

The preparation of cash flow projections assists in determining the cash requirements of the District. It could also help in reducing the cost of borrowings, identifying any potential budget difficulties and shortfalls, and exploring various short-term financing options. Cash flow projections also can improve investment earnings by identifying excess balances available for investment and ensure liquidity for disbursement.

Cash flow projections estimate the timing and amounts of specific future cash receipts and disbursements. These receipts and disbursements can be characterized as either recurring or nonrecurring cash flows. Recurring cash flows are those that can be predicted on a regular basis, such as payroll disbursements. Nonrecurring cash flows generally result from one-time programs, such as capital projects or the sale of an asset, and are relatively unpredictable. A cash flow projection should include all major recurring cash flows and any major nonrecurring cash flows that are reasonably predictable.

Bank Reconciliations

Bank reconciliations are essential for maintaining proper control over cash. They are formal schedules documenting and explaining the differences between the bank's record of cash accounts and a school district's accounting records. Proper bank reconciliations account for transactions not yet recorded by the bank and transactions processed by the bank that might not yet be recorded on the District's books. Book and bank accounts should be reconciled monthly to assist in detecting accounting and banking errors and for identifying fraudulent transactions.

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The bank statements are mailed to the District by each banking institution and available online for JP Morgan Chase bank accounts which are retrieved from the banking website. The mail courier delivers the mail to the District and sorts the mail for the business office. The account clerk in payroll receives the mail and provides the bank statements to the account clerk in benefits. The account clerk in benefits books the interest and prepares the bank reconciliations.

The account clerk in benefits utilizes the general ledger report per *WinCap* to prepare the bank reconciliations. The bank reconciliation procedures include comparison of dates and amounts of daily deposits on the bank statements with the cash receipts log, investigation of bank transfers to determine if both sides of the transaction have been properly recorded and investigation of outstanding checks. After the account clerk in benefits reconciles the bank balance to the book balance as per the general ledger, the account clerk in benefits prepares the treasurer's report and it is provided to the Treasurer. The Treasurer reviews and approves the bank reconciliations and treasurer's report verifying the bank balance is reconciled to the book balance as per the general ledger. Once the treasurer's report is approved, the Treasurer uploads an electronic copy of the treasurer's report and collateral statement to *BoardDocs* for all the Board members to view. The District clerk utilizes *BoardDocs* noting the reports uploaded to prepare the Board agenda for the Board meeting.

Petty Cash Accounts

The District's petty cash procedures include an allocation of \$1,200 which is provided to various departments depending on their need. At the beginning of the school year, the District Treasurer sends a memo to all departments that are Board approved to receive petty cash, stating that if they wanted the funds, they need to request it. This year, only the Transportation Department and Middle School requested petty cash funds. The appointed employees for who are responsible for petty cash at each department are required to follow the guidelines to properly manage the funds:

- 1) Receipts and cash-on-hand must always total the authorized fund amount. All disbursements from such funds are to be supported by receipted bills, paid out slips or other evidence documenting the expenditure.
- 2) Payments may be made from petty cash for materials, supplies, or services only when payment is required on delivery.

Petty cash funds are safeguarded in a lockbox located in the schools safe. Each custodian of the petty cash account is required to maintain itemized receipts for all purchases. The amount of cash and itemized receipts should always total the amount originally received. The Transportation Office received \$200 petty cash, and the Middle School principal received \$100 petty cash. The maximum amount for an individual purchase is \$25 and any purchase in excess of this amount must be approved by the Business Office. When the individual would like to replenish the petty cash funds they need to submit all receipts to the account clerk in accounts payable.

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The account clerk in accounts payable totals the receipts and creates a purchase order to replenish the petty cash amount. The account payable department processes the request for replenishment and provides the itemized receipts and check totaling the replenishment amount to the claims auditor for review and approval. Once approved by the claims auditor, the check is provided to the individual requesting petty cash replenishment.

In June, the petty cash custodians must submit all petty cash receipts and leftover funds to the account clerk in accounts payable. The account clerk totals the receipts and verifies each petty cash account reconciles to the amount originally received. The Treasurer prepares a journal entry recording the petty cash expenditures and the account clerk deposits the remaining money into the general fund account.

Collateral

A school district's priority is to ensure adequate security for deposits and investments within banking and institutions and trust companies. Adequate security protects school districts from suffering losses in the event of a bank or trust company failure or other conditions resulting in an inability to access public funds in these institutions. All public deposits and investments in banks or trust companies that exceed the amounts insured under the provisions of the Federal Deposit Insurance Act (FDIA) must be secured, in accordance with statutory requirements.

Local governments are permitted to invest in a shared Federal Deposit Insurance Corporation (FDIC) insurance program offered by participating banks. Local governments may authorize their designated banks to arrange for the redeposit of the local government's funds in one or more banking institutions, on behalf of the local government, through a deposit placement program and must meet the following criteria:

- The designated bank must act as the custodian of the re-deposited funds.
- Funds held in excess of the amount insured by the FDIC, pending redeposit must be secured.
- The full amount of the re-deposited funds (including accrued interest) must be insured by the FDIC.
- The designated bank must receive an amount that is at least equal to the amount that is re-deposited and at the same time the funds are re-deposited.

Wire Transfers

The District has established online banking procedures within the application to perform wire transfers. Online banking procedures require users to type their password each time they log on. Users are also required to have a strong password that includes alpha and numerical characters. In addition to a password, a Personal Identification Number ("PIN") generated by a bank issued security token must be entered. A security token is a small portable device that generates a PIN number that is valid for only one sign-on and expires within seconds of being generated. The security tokens are maintained by those individuals who require online banking access. As an additional security measure, the user's online banking session will time out after a reasonable period of time.

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Once payroll is processed, the Payroll Supervisor provides the payroll supporting documentation to the Treasurer who reviews and approves payroll. The Treasurer utilizes the payroll supporting documentation and reviews the federal and state tax amounts that are required to be paid. The Treasurer performs the wire transfers on the banking system using pre established accounts that are set up in the system. The Payroll Supervisor approves and releases the wire transfer. The Assistant Superintendent for Business receives email confirmations from the bank when a wire transfer is performed.

The Assistant Superintendent for Business also reviews and approves the payroll information. After review, the Payroll Supervisor reports the amounts to the appropriate websites to schedule the ACH payment.

The Payroll Supervisor prints a confirmation from the website and provides to the Treasurer. On the date Payroll Supervisor scheduled the ACH debit the funds are withdrawn from the trust and agency account. After the ACH debit is withdrawn the Treasurer reviews the trust and agency bank statements.

The Treasurer prepares the transfers and provides it to the Payroll Supervisor. The Treasurer sets up the intra-bank wire transfers for payroll via online banking for the Payroll Supervisor to approve. To gain access to the banking website, the Treasurer enters a unique password, and then enters a unique number generated by the bank security token to gain access to the intra-bank wire transfer templates. The Treasurer logs on to the online banking system and selects the “to” and “from” accounts needed to transfer money and enters an amount needed to cover payroll. This transaction is usually performed twice a month for payroll.

For wire transfers that occur between two District bank accounts, within the same bank, the Treasurer is permitted to release wire transfers with the Assistant Superintendent for Business’ approval. The wire transfer is provided to the Payroll Supervisor to review and for releasing the funds for intra-fund wire transfers.

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FINDINGS AND RECOMMENDATIONS

Based on our interviews, observations and detailed testing, we provide our findings and recommendations to further strengthen the District's internal controls as they pertain to cash management as outlined above.

It should be noted that these recommendations are provided to the District to assist management in improving the District's controls relating cash management. It is important to note that our observations and recommendations are directed toward improvement of the system of internal controls and should not be considered a criticism of, or reflection on, any employee of the District.

Policies and Procedures

Procedure Performed: We reviewed the District's policies, procedures and practices with regard to the cash management operations.

Finding: No exceptions were found as a result of applying these procedures.

District Treasurer Duties

Procedure Performed: We reviewed the District's written job description for a District Treasurer and compared the job description to the actual duties of the District Treasurer.

Finding: No exceptions were found as a result of applying these procedures.

Authorized Signatures

Procedure Performed: We reviewed the District's annual reorganization meeting minutes, which stated the Board authorized the signature of the District Treasurer on all school district checks for payment of salaries. We also compared the annual reorganization meeting minutes to the signature cards maintained at the banking institution(s).

Finding: No exceptions were found as a result of applying these procedures.

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Office of Unclaimed Funds

Procedure Performed: We reviewed the New York State Comptroller Office of Unclaimed Funds website and searched for any reported unclaimed funds with the District's name.

Finding: We noted one instance of unclaimed funds on the Office of State Comptrollers website relating to the Plainedge School District. The District has investigated the unclaimed funds relating to the Plainedge School District and were unable to successfully claim the funds as the claim was from 1990.

Recommendation: We recommend the District continues to review the New York State Comptroller Office of Unclaimed Funds website quarterly as it has been, and search for any reported unclaimed funds with the District's name and prepare a claim form to obtain the funds due to the District.

Cash Flow Statements

Procedure Performed: We reviewed the District's cash flow statements to determine if the District is properly monitoring cash flow and verify the following:

- Cash flow statements are prepared timely and accurately.
- The cash flow statements have been submitted to the Board for approval.

Finding: No exceptions were found as a result of applying these procedures.

Bank Reconciliations

Procedure Performed: We reviewed a sample of the District's bank reconciliations to verify the following:

- Bank reconciliations are performed timely and reviewed and approved by an individual other than the preparer.
- The account balances are accurate and agrees to the treasurer's report.
- The book balance on the bank reconciliations agree to the general ledger.
- Old outstanding checks and reconciling items are reviewed for reasonableness.

Finding: We noted that the general fund disbursement account bank reconciliation includes outstanding checks dating back to 2019.

Recommendation: We recommend the District continues to investigate old outstanding items in the general fund disbursement account.

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Petty Cash Accounts

Procedure Performed: We reviewed the District petty cash accounts that are provided to different administrators and departments within the District to determine if the District is properly monitoring petty cash accounts and maintaining supporting documentation.

Finding: No exceptions were found as a result of applying these procedures.

Collateral

Procedure Performed: We reviewed the District's procedures surrounding collateral to determine if the District is properly monitoring collateral and verified the following:

- Collateral schedules are prepared timely and accurately.
- The collateral schedule has been submitted to the Board for approval and included in the treasurer's report.
- Amounts per the collateral schedule agree to the bank statements and collateral statements.

Finding: No exceptions were found as a result of applying these procedures.

Wire Transfers

Procedure Performed: We obtained a sample of 10 wire transfers to determine the District is properly maintaining supporting documentation and there are proper approvals.

Finding: No exceptions were found as a result of applying these procedures.

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CORRECTIVE ACTION PLAN

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulations §170.12, a corrective action plan, which has been approved by the Board, should be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be submitted using the NYSED Business Portal.