



**Cold Spring Harbor
Central School District
*Internal Audit Report on
Cash Management***

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Internal Audit Report on Cash Management

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Reviewed bank reconciliations to verify the following:

- Bank reconciliations were performed timely, reviewed and approved by an individual other than the preparer.
 - The account balances were accurate and agrees to the Treasurer's report.
 - The book balances on the bank reconciliations agreed to the general ledger.
 - Old outstanding checks and reconciling items were reviewed for reasonableness.
- Reviewed the District's procedures surrounding collateral to determine if the District was properly monitoring collateral and verified the following:
 - Collateral schedules were prepared timely and accurately.
 - The collateral schedule had been submitted to the Board for approval and included in the Treasurer's report.
 - Amounts per the collateral schedule agreed to the bank statements and collateral statements.
 - Tested a sample of wire transfers to determine if the District was properly maintaining supporting documentation and there were 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

R.S. Abrams & Co., LLP
March 21, 2014

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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 seventeen bank accounts in the following funds: general, school lunch, federal, capital, debt service, and trust and agency and two bank accounts for the extraclassroom accounts. The Treasurer's responsibilities include maintaining copies of the bank statements, collateral statements, preparing the bank reconciliations, and Treasurer reports for the Board.

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 mutual funds or 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.

On a monthly basis, the Treasurer and the Finance Manager monitors the District's investments by reviewing the interest rates on the bank statements. The Finance Manager also monitors the investments by logging onto the District's secured banking website utilizing either a unique password and/or banking token on an as needed basis. If interest rates increase, the Treasurer and the Finance Manager would transfer the funds to maximize interest earnings upon approval from the Interim Assistant Superintendent of Business.

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Online Banking

The District utilizes online banking services to monitor bank balances, interest rates, and investigate any unusual activity. On a daily basis, the account clerk prints the prior day transactions from the JP Morgan Chase Access, the online banking system, which is reviewed by the Finance Manager. The District also utilizes Positive Pay on all checking accounts and if a check was presented that was not included in the file the District uploaded to the bank, the District will then receive an email to verify the authenticity of the check. The Finance Manager also reviews the debit and credit transactions on the accounts for accuracy. Additionally, the District 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.

Electronic Funds 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 entered and then the bank processes the transfer directly to the receiver’s bank.

The District’s employees must each complete a direct deposit authorization form to set up an electronic connection between the District’s bank account and their bank accounts. Once payroll is processed, the Finance Manager 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 Finance Manager verifies the information is accurate and releases the file. The bank will notify the District if a file has been rejected.

The amount due to 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 on a bi-weekly basis. 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 the following 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.

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- **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.
- **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 they cover 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. Cash flow projections 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 records 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 but not yet 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 Treasurer utilizes the warrants, the general ledger detail, bank statements and the incoming and outgoing wire transfer supporting documentation to reconcile the bank balances and to make sure both sides of the transfers are recorded properly. This information is utilized to prepare the bank reconciliations. The Treasurer also analyzes the checks that have been outstanding for more than six months and the District will void and reissue as deemed appropriate after contacting the vendors, as to whether they have received the check. After the Treasurer reconciles the bank balance to the book balance as per the general ledger, the Treasurer forwards the bank reconciliations to the Finance Manager to review for accuracy. Once reviewed, it is submitted to the District Clerk to be provided to the Board at the monthly Board meeting.

Collateral

A school district's priority is to ensure adequate security for deposits and investments within banking 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.

As of July 2012, new legislation went into effect, which authorized local governments 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 redeposit 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.

On a monthly basis, collateral statements are sent to the District. The Treasurer compares the collateral statement balance to the bank statement balances and verifies the collateral rate for adequacy.

Wire Transfers

The District has established online banking procedures with the bank 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 of inactivity.

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When a wire transfer needs to be performed the Finance Manager processes the transfer via the online banking system. To gain access to the website, the Finance Manager enters a password and an unique number generated by the bank security token to gain access to the intra-bank wire transfer templates. The Finance Manager then selects the “to” and “from” accounts needed to transfer money and enters the amount needed. Once the wire is initiated and the accounts and amounts are entered, the account clerk approves the wire transfer and prints two additional copies of the processed wire transfer. One copy is placed in the wire transfer book and the other copy is attached the journal entry book with supporting documentation. For all wire transfers where a payment was sent to an outside beneficiary, the bank will submit an electronic confirmation to the Finance Manager who prints and attaches the confirmation email to the wire transfer supporting documentation. After the account clerk approves the wire transfer, the Finance Manager then records the journal entry for the wire transfer into the district’s accounting system. On a weekly basis, the Interim Assistant Superintendent for Business will review and sign off on all journal entries.

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FINDINGS AND RECOMMENDATIONS

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

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

Petty Cash Accounts

Procedure Performed: We reviewed the District's procedures and practices for petty cash accounts.

Finding: We noted the review of the year-end reconciliations of the petty cash accounts held by the various buildings is not documented. We also noted at the Goosehill Primary School where some approvals were missing on the petty cash requests.

Recommendation: We recommend the District ensure that the review of the year-end petty cash accounts be documented as evidence that the procedure was indeed performed. We also recommend the District ensure that petty cash requests be approved prior to utilizing monies from petty cash for proper petty cash expenditures.

Confirmations

Procedure Performed: We sent bank confirmations to surrounding banks located in the District's area to ensure that the District's tax identification number is not utilized by unauthorized individuals or groups.

Finding: No exceptions were found as a result of applying this procedure.

Authorized Signatures

Procedure Performed: We compared the Board authorized signers appointed in the annual reorganization meeting minutes to the signature cards maintained at the banking institute(s).

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Finding: We noted the District's reorganization minutes appoint the Treasurer as the authorized signer. Furthermore, in the absence of the Treasurer, the Board President or Vice-President is then authorized to sign checks on behalf of the District. However, we noted at First National Bank, the only authorized signatures present are the Treasurer and the Board President. We also noted that the bank account utilized for the Cold Spring Harbor Central School District's Self-Funded Dental Plan is under the District's federal identification number; however the Plan administrator is signing the checks.

Recommendation: We recommend the District update the signature cards at the First National Bank and on the District's Self-Funded Dental Plan bank account to reflect the authorized signers as stipulated in the reorganization minutes.

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 the District has unclaimed funds on file at the Office of New York State Comptroller.

Recommendation: We recommend the District contact the Office of New York State Comptroller to inquire about claiming these funds.

Cash Flow Statements

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

- Cash flow projections were prepared timely and accurately.
- The cash flow projections had been submitted to the Board for approval.

Finding: No exceptions were found as a result of applying this procedure.

Bank Reconciliations

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

- Bank reconciliations were performed timely as well as reviewed and approved by an individual other than the preparer.

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- The account balances are accurate and agreed to the Treasurer's report.
- The book balance on the bank reconciliations agreed to the general ledger.
- Old outstanding checks and reconciling items were reviewed for reasonableness.

Finding: No exceptions were found as a result of applying this procedure.

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 were prepared timely and accurately.
- The collateral schedule had been submitted to the Board for approval and included in the treasurer's report.
- Amounts per the collateral schedule agreed to the bank statements and collateral statements.

Finding: No exceptions were found as a result of applying this procedure.

Wire Transfers

Procedure Performed: We obtained a sample of 20 wire transfers to determine if the District was properly maintaining supporting documentation and there were proper approvals.

Finding: No exceptions were found as a result of applying this procedure.

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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 Regulation §170.12, a corrective action plan, which has been approved by the Board, must 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 sent to the following address:

New York State Education Department
Office of Audit Services, Room 524 EB
89 Washington Avenue
Albany, New York 12234
Attention: John Cushin