Internal Audit Report
Check Preparation and Distribution Audit

September 17, 2015

Office of Internal Audit
Objective, Scope and Methodology

The objective of this audit was to determine the effectiveness of operations and the internal controls that manage risk within the check preparation and distribution processes.

The scope of this audit was to analyze the check printing and distribution processes during October 2014 through April 2015. The audit focused on evidence that provided reasonable, but not absolute, assurance that controls were operating with sufficient effectiveness during the scope of the audit. The methodology included reviews of procedures, analysis of selected documents and transactions from various areas of the operation, along with discussions with key personnel.

Executive Summary

The check preparation and distribution processes are performed by the Treasury Services Department. Check preparation and distribution includes responsibility for ensuring sufficiency and security of check stock, MICR toner cartridges (special ink cartridges required for check printing), printing checks, and distributing printed checks as authorized by the Payroll Department. The software used for printing the checks is the Oracle Financial Module.

The Internal Audit Office has determined that the Treasury Services Department, overall, has created an effective internal control structure for the check preparation and distribution process. However, opportunities for improvement in controls exist for the following areas:

- Documented procedures
- Chain of custody controls for printed checks
- Hold check explanations
- Security controls over check stock and MICR cartridges
- Management oversight and staff training

The auditor would like to note that the following controls for check preparation and distribution were found to be functioning properly:

- All checks are signed electronically
- Check stock has a “Void” watermark when document is copied
- Checks are only printed by using data files
- Data files are transmitted and received through Oracle
- Once checks are printed; files are removed from Oracle and cannot be reprinted
- The Treasury Services office is locked down from non-Treasury staff access and requires a physical key for entry
- The district employs the use of both “positive pay” and “payee positive pay” through its depository
Observations, Recommendations and Management’s Action Plan

Issue 1: Check Print and Distribution Written Procedures Do Not Include Sufficient Details

Written standard operating procedures should be created and followed to address operational needs, to ensure consistency in performing processes and to manage risk. The effect of not creating and following established procedures could include, among other adverse actions, the disappearance of checks without having the ability to discern where in the process the disappearance occurred and staff not being aware of their responsibilities.

Testing determined that Treasury Services written procedures did not detail all the actions performed by staff during the check print and distribution process.

Recommendation:
Internal Audit recommends that the Director of Treasury Services ensure check printing and distribution standard operating written procedures be enhanced to include all steps that are taken during the performance of the check print and distribution functions, and include internal controls designed to limit exposure to unauthorized or inappropriate transactions, as discussed throughout the audit.

Management’s Response:
Treasury Management and staff are working on an update to the check disbursement procedures that will incorporate all of these recommendations.

Estimated Implementation Date:
June 30, 2015

Issue 2: Check Chain of Custody Sign Off Not Documented

Chain of custody of the printed checks should be documented from the point of print to final distribution. The effect of not documenting the chain of custody could result in the loss of checks with no definite understanding of who had final possession. In addition, without the documented chain of custody, investigations into lost or misappropriated checks could also be difficult.

Walkthrough of the check preparation process found that the printed checks pass through the hands of various staff on their way to final distribution and chain of custody for the checks is not documented. An assigned specialist prints the checks. The checks and accompanying check register are then handed off to the front desk Specialist. The front desk Specialist then places any checks on hold for pickup into the check hold box and prepares the remaining checks to be mailed.

Recommendation:
Internal Audit recommends that the Director of Treasury Services enhances their check print and distribution process to ensure chain of custody signoff occurs each time the responsibility for printed checks transfers from one staff to another throughout the distribution process. The signoff should include signature and date.
Management Response:
Treasury Management will implement a process whereby the chain of custody for all checks is documented.

Estimated Implementation Date:
Implemented

Issue 3: Check Hold Reason Not Identified

Per Treasury Services’ written procedure, if a check is not placed immediately into the mail system a valid reason must be identified for holding the check. The effect of not documenting a valid reason for holding checks places the District in a position of not being able to prove that checks are only being held due to an emergency and enhances the opportunity for check abuse to occur.

Testing determined that Treasury Services staff would receive instructions to hold checks; however, the reason for holding the check was not consistently identified.

Recommendation:
Internal Audit recommends that the Director of Treasury Services ensures checks not be held for pickup unless a valid reason is documented and the reason supports the case of an emergency or a valid immediate need.

Management’s Response:
The reasons for any check holds will be maintained in Treasury.

Estimated Implementation Date:
Implemented

Issue 4: Check Stock and MICR Cartridges are not fully secured

Securing of check stock and MICR cartridges from the point of delivery to the point of use is an essential control within the check print and distribution process. The MICR cartridge holds a type of ink that allows for scanners to electronically read the bank routing number, bank account number, check number and check amount as the check passes through the banking system. The effect of not securing the blank check stock and MICR toner cartridges at all times could be printing of unauthorized and undocumented checks.

Testing determined that two printers are designated for check printing and that both printers are continually loaded with check stock and MICR cartridges which are accessible by any staff having access to the Treasury Services Department. In addition, audit procedures determined that check stock and MICR toner cartridges inventory are not documented and tracked to help readily identify loss.

Recommendation:
Internal Audit recommends that the Director of Treasury Services ensure printers designated for printing checks be secured or the blank check stock and MICR toner cartridge be removed from printer and secured when printers are not in use and that check stock and MICR control logs be maintained.
Management’s Response:
All MICR cartridges and check stock will be secured.

Estimated Implementation Date:
Implemented

Issue 5: Sufficient and Effective Management Oversight Needs Improvement in the Check Disbursement Process

According to the Texas Education Agency Financial Accountability System Resource Guide (FASRG) accountability is used to describe the process and procedures used to hold an organization responsible for its performance. Accountability involves identifying the goals and objectives of an organization, measuring its performance, and comparing its performance to internal or external standards. The systems that could assist with accountability are Quality Reviews and an effective training program specifically on red flags for fraud. Without accountability there is a risk that resources are not used for the purpose intended.

Through interviews with Treasury Services Management and a request for a copy of their Quality Review Program and Fraud Prevention Training program the auditor identified that there are no formal programs in place for the check print and disbursement process.

Recommendation:
We recommend the following:

- Management formally develops and documents Quality Reviews specifically for the check disbursement process.

- Since training is essential in accomplishing performance goals there should be training in identifying red flags for fraud; and it should be documented.

Management Response:

Quality Reviews:  Treasury Management will implement a review process.

Estimated Implementation Date:  May 31, 2015

Red Flag Fraud Prevention Training:  Treasury Management will pursue finding “red flag fraud prevention” training.

Estimated Implementation Date:  June 30, 2016