



# Cambridge Central School District

## Internal Controls Over Extra-Classroom Activity Funds

### Report of Examination

Period Covered:

July 1, 2012 — October 31, 2013

2014M-63



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 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 Cambridge Central School District, entitled Internal Controls Over Extra-Classroom Activity Funds. 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 Cambridge Central School District (District) is located in the Towns of Cambridge, Easton, Jackson, Salem and White Creek in Washington County and the Towns of Hoosick, Pittstown and Schaghticoke in Rensselaer County. The District is governed by the Board of Education (Board) which comprises 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District with approximately 885 students and 175 employees. The District's budgeted appropriations for the 2013-14 fiscal year are \$18.8 million, which are funded primarily with State aid and real property taxes. During the 2012-13 fiscal year, the District's extra-classroom activity funds recorded \$83,938 in receipts and \$79,641 in disbursements.

## Objective

The objective of our audit was to determine if the District had established effective internal controls over extra-classroom activity funds. Our audit addressed the following related question:

- Are internal controls over extra-classroom activity funds appropriately designed and operating effectively?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the extra-classroom activity funds area and, therefore, we examined internal controls over extra-classroom activity funds for the period of July 1, 2012 through October 31, 2013.

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. District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

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 forwarded 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.

## Extra-Classroom Activity Funds

The Regulations of the Commissioner of Education (Regulations) require each school district's Board to make rules and regulations for the safeguarding, accounting and auditing of all moneys received and derived from extra-classroom activities. The Board and District officials must adopt and implement policies and procedures to protect extra-classroom activity fund moneys, including guidance for closing inactive clubs and disposing of the related moneys. Regulations require the Board to appoint a central treasurer responsible for maintaining records of extra-classroom activity fund receipts and disbursements and also require each extra-classroom activity to have a student treasurer and faculty advisor. Student treasurers, with the assistance of faculty advisors, are responsible for maintaining independent accounting records of receipts and disbursements.

Generally, extra-classroom activity funds are raised by student activity organizations. Students raise and spend these funds to promote the general welfare, education and morale of all students and to finance the normal and appropriate extracurricular activities of the student body. The District's 35 accounts in the extra-classroom activity fund (activity fund) recorded approximately \$104,344 in receipts and \$92,088 in disbursements during our audit period and had a combined cash balance of approximately \$109,943 as of October 31, 2013.

The Board and District officials did not adopt and establish appropriate policies and procedures for the activity fund and did not provide adequate oversight. Consequently, we found that 30 cash receipts totaling \$27,224 had no supporting documentation and 11 disbursements totaling \$6,417 lacked adequate documentation to allow District officials to determine if they were made for appropriate student activities. The District's failure to establish adequate internal controls over activity funds increases the chance that District moneys could be lost or misused.

### Policies and Oversight

The Board and District officials are responsible for the protection and oversight of the District's cash assets, including activity fund moneys. These responsibilities include adopting policies and procedures that describe the records that District personnel and students must maintain and the duties and control procedures that they must follow to adequately safeguard activity fund moneys. The Board should also appoint a faculty auditor<sup>1</sup> to oversee the management of activity funds.

<sup>1</sup> The faculty auditor is a District employee who is responsible for reviewing the extra-classroom financial records to determine if correct procedures are being used to account for activity funds and to certify the accuracy of the entries posted to the records and the account balances listed in the ledgers.

In addition, bank reconciliations should be reviewed and approved by an individual who is independent of the activity fund cash custody and recording functions. Having a good system of internal controls over activity funds helps minimize the risk that errors or irregularities may occur and go undetected.

Although the Board adopted policies for the activity fund, the policies are not adequate because they do not provide detailed procedures for establishing a club, the financial management and recordkeeping of activity funds, or the closing of inactive clubs and disposing of the related moneys, as required by the Regulations. The Board had also not appointed a faculty auditor to oversee the management of the activity fund. We also found that the central treasurer received the bank statements for the activity fund bank account and reconciled the bank account without any oversight or review by District officials. The failure of the District to establish adequate policies and procedures for the activity fund and the Board's and District officials' lack of oversight over activity funds increases the risk that activity fund moneys might not be properly accounted for, that inactive clubs might not be properly closed out and that moneys related to inactive clubs might not be properly handled.

## Cash Receipts

Students are responsible for collections and must remit collections for each fundraiser to the central treasurer for deposit. Students collecting money should issue duplicate press-numbered receipts for collections or use some other method that would accurately document the source, date, amount and purpose of cash collections. When students remit collections to the central treasurer for deposit, they should provide adequate documentation to support the collections and obtain a duplicate press-numbered receipt from the central treasurer to document transfer of the money. Good business practice requires cash and checks to be deposited as soon as possible to prevent the loss or misuse of cash. Furthermore, it is important that cash receipts are deposited intact<sup>2</sup> to reduce the risk of irregularities occurring with the handling of cash collections.

We reviewed a random sample of 30 cash receipts<sup>3</sup> totaling \$27,224<sup>4</sup> that were remitted to the central treasurer for deposit to verify that they were supported by documentation of the collections, accurately accounted for in the computerized accounting system and deposited timely and intact. We found that all 30 cash receipts were accurately accounted for in the computer system and were deposited intact.

<sup>2</sup> In the same amount and form (cash or check) in which they were received

<sup>3</sup> We used a computerized random number generator to select 15 cash receipts from student activity account transaction request forms and 15 cash receipts from the central treasurer's receipts to satisfy our sample of 30 cash receipts.

<sup>4</sup> Composed of \$17,856 in checks and \$9,368 in cash



However, none of the 30 cash receipts contained any supporting documentation of the collections, such as duplicate press-numbered receipts or daily sales reports. Instead, the central treasurer was only provided with a student activity transaction request form that summarized the collections that were remitted for deposit, and, therefore, the central treasurer had no means to assure that all moneys collected by the extra-classroom activities were accounted for and properly remitted to her for deposit. Based on the lack of supporting documentation we also could not determine the exact dates that cash receipts were collected in order for us to determine if collections were deposited timely. As a result, we used the dates that were recorded on the student activity transaction request forms that were remitted to the central treasurer to determine if the cash receipts were deposited timely. Except for some minor exceptions related to the timeliness of deposits that we discussed with District officials, we found that the collections were deposited timely based on the dates recorded on the student activity transactions request forms. When adequate records are not maintained to support cash receipts, District officials cannot ensure that cash receipts are adequately accounted for, remitted to the central treasurer and deposited timely.

We also found that the central treasurer does not count the moneys remitted to her in front of the student treasurer or faculty advisor when they remit the money to verify agreement among themselves as to the amount of moneys being turned over; instead, the central treasurer counts the money at a later date. In addition, the central treasurer does not issue press-numbered receipts to the extra-classroom activities for collections that are remitted to her for deposit. When the cash being remitted to the central treasurer is not counted with all involved parties present and press-numbered receipts are not issued for collections, there is an increased risk that errors or irregularities could occur and not be detected or corrected in a timely manner.

## **Cash Disbursements**

A good system of internal controls over activity fund cash disbursements provides that the District only pays for good or services that are supported by adequate documentation (i.e., itemized receipts or invoices). When payments are made without adequate supporting documentation, District officials cannot ensure that the purchases are made for appropriate purposes.

We reviewed a random sample of 50 disbursements<sup>5</sup> totaling \$36,634 that were made from the activity fund accounts to determine if they were supported by adequate documentation and were for appropriate student activities. We found 11 of the disbursements totaling \$6,417

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<sup>5</sup> We used a computerized random number generator to select 50 disbursements that were made during our audit period.



were not supported by adequate documentation. For example, two disbursements totaling \$310 and \$426 were made to restaurants without supporting documentation of the purchases. Additionally, a \$150 disbursement was made to a store without supporting documentation, which District officials stated was for gift cards. When District officials make payments that are not supported by adequate documentation, they have limited assurance that the payments are for appropriate student activities.

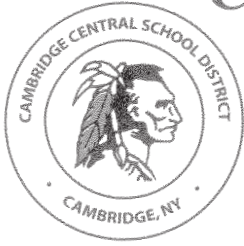
## **Recommendations**

1. District officials should establish and the Board should adopt adequate policies and procedures for activity funds, including procedures for establishing a club, the financial management and recordkeeping of activity funds, the closing of inactive clubs and disposing of the related moneys of inactive clubs.
2. The Board should appoint a faculty auditor to oversee the management of activity fund moneys.
3. District officials should require that an individual independent of the activity fund cash custody and recording functions reviews and approves monthly activity fund bank reconciliations.
4. District officials should ensure that the central treasurer receives supporting documentation for all activity fund cash receipts that are remitted to her for deposit and that the student treasurers and faculty advisors properly account for all activity fund cash receipts.
5. The central treasurer should count moneys remitted to her in the presence of the student treasurer or faculty advisor and issue duplicate press-numbered receipts for all activity fund collections that are remitted to her for deposit.
6. District officials should ensure that all activity fund disbursements are supported by adequate documentation and are for appropriate student activities.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Cambridge Central School District Administrative Offices

58 South Park Street, Cambridge, NY 12816

518-677-2653

Fax: 518-677-3889

**Vincent Canini**  
Superintendent of Schools

**Beth Coates**  
District Treasurer

May 21, 2014

Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, NY 12801

Ladies and Gentlemen:

This letter serves as a response and corrective action plan to the preliminary draft findings of the recent audit of the Internal Controls Over Extra-Classroom Activity Funds.

We are in agreement with the recommendations provided and have begun to implement many. The board will be reviewing their current policy regarding Extra-Classroom funds and making changes based on the sample policy provided by the New York State Comptroller's Office.

A faculty advisor will be appointed annually at the District's reorganizational meeting. The District Treasurer will be reviewing the monthly bank statement for accuracy and reasonableness.

The central treasurer has already implemented the practice of counting the monies in the presence of either the student treasurer or the faculty advisor. The central treasurer will not accept the monies unless there is supporting documentation that can properly account for activity fund cash receipts.

The central treasurer has been informed of the findings and explained why the supporting documentation was deemed insufficient. She will be more cognizant of this in the future. The Internal Claims Auditor was also made aware and will pay close attention during the claims process.

We thank the Comptroller's Office for their professionalism while performing the audit and appreciate the opportunity to work with them and develop a collaborative relationship.

Very Truly Yours,

Vincent A. Canini

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition and oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected extra-classroom activity funds for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following.

- We interviewed District officials and employees and reviewed District policies and various financial records and reports related to extra-classroom activity funds to gain an understanding of the internal controls over extra-classroom activity funds and any associated effects of deficiencies in those controls.
- We reviewed a random sample of 30 cash receipts totaling \$27,224 that were remitted to the central treasurer for deposit to verify that they were supported by documentation of the collections, accurately accounted for in the computerized accounting system and deposited timely and intact.
- We reviewed a random sample of 50 disbursements totaling \$36,634 that were made from the activity fund accounts during our audit period to determine if they were supported by adequate documentation and were for appropriate student activities.

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.

## **APPENDIX C**

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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
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