



# Salem Central School District

## Internal Controls Over Extra-Classroom Activity Funds Report of Examination

Period Covered:

July 1, 2012 — June 30, 2013

2013M-394



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**

March 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 Salem 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 Salem Central School District (District) is located in the Towns of Salem, Hebron, Jackson and Greenwich in Washington 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 555 students and 111 employees. The District's budgeted expenditures for the 2012-13 fiscal year totaled approximately \$11.1 million, or \$20,000 per student, funded primarily with State aid, real property taxes and grants. During 2012-13, the District's extra-classroom activity funds recorded \$99,957 in receipts and \$95,551 in disbursements.

## Objective

The objective of our audit was to determine if the District has 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

We examined internal controls over extra-classroom activity funds for the period July 1, 2012 through June 30, 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 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. 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

Regulations of the Commissioner of Education require each school district's board of education to establish rules and regulations to safeguard and account for 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 a faculty auditor<sup>1</sup> to oversee the management of the extra-classroom activities funds. It is also required that each extra-classroom activity 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 extra-classroom activity fund comprises 39 clubs which recorded \$99,957 in receipts and \$95,551 in disbursements during the period of July 1, 2012 through June 30, 2013. The combined cash balance of all the extra-classroom activity funds was \$65,245 as of June 30, 2013.

We found that the Board and District officials did not adopt and implement appropriate policies and procedures for the extra-classroom activity fund. As a result, the Board did not receive monthly extra-classroom activity fund records<sup>2</sup> during the audit period. In October 2013, subsequent to the start of our field work, the central treasurer started providing the Board with extra-classroom activity fund records. In addition, the student treasurers lacked sufficient documentation/accounting records for collections totaling \$23,676, such as profit and loss statements, up-to-date activity ledgers or inventory control forms. The central treasurer did not provide the student treasurers with duplicate receipts for remittances from the various clubs totaling \$23,676. Further, of these funds, there was insufficient documentation

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<sup>1</sup> The position is charged with reviewing the extra-classroom paperwork to determine if correct procedures are being used to account for activity funds and also to certify the accuracy of the entries posted to the records and the account balances listed in the ledgers.

<sup>2</sup> Fund records include central treasurer reports, reconciliation of bank balances and bank statements.

supporting \$22,491 collected by the student treasurers to determine if the cash and checks collected were remitted timely to the central treasurer. These deficiencies increase the risk that receipts will not be adequately accounted for and deposited, and moneys could be used for purposes other than intended.

Guidance – The Board and District officials are responsible for adopting and implementing policies and procedures that describe the records District personnel and students must maintain, for providing training to the District’s central treasurer and faculty advisors and for adequately safeguarding extra-classroom activity fund moneys.

Although the Board established a policy governing the operations of extra-classroom activity funds, the policy is not adequate because it does not provide detailed procedures for the financial management and recordkeeping of the extra-classroom activity funds or for closing inactive clubs.<sup>3</sup> Additionally, the District did not establish written procedures to supplement the Board policy and provide specific guidance for performing day-to-day activities.

In addition, the District’s external auditor examined the extra-classroom activity fund and identified weaknesses related to poor recordkeeping and the lack of a faculty auditor. The Board did not take action to correct the recordkeeping weaknesses and did not appoint a faculty auditor until October 16, 2013. Furthermore, the audit identified that no training was provided to the central treasurer or faculty advisors outlining their job duties. For example, during our audit scope period, we found that the central treasurer did not count the moneys remitted to her in front of the student treasurer and faculty advisor when they remitted the money. A process to verify agreement among themselves as to the amount of moneys being turned over is a good internal control; instead, the central treasurer counted the money later in the day.

We also determined that 18 of the District’s 39<sup>4</sup> clubs were not maintaining appropriate accounting records during our audit period. For example, one cash receipt activity remittance reviewed, totaling \$1,780 for admissions to a school play, did not have a statement of profit and loss. As a result, neither the Board nor District officials have assurance that extra-classroom activity fund moneys are properly accounted for. Further, errors and irregularities could occur without being detected.

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<sup>3</sup> Of the 39 clubs, eight were inactive and had zero cash balances.

<sup>4</sup> Of the 39 clubs lacking records, eight were inactive during our scope period and had no cash balances.

Cash Receipts – Student treasurers are responsible for processing cash collections and must remit collections for each fundraiser to the central treasurer for deposit in a timely manner. Students should prepare a summary of collections and the central treasurer should issue a receipt to the students at the time of receiving money. Students collecting money should issue duplicate press-numbered receipts or use another method that would accurately document the source, date, amount and purpose of cash collections. The students should also maintain a statement of profit and loss, activity ledgers and, when needed, inventory control forms.<sup>5</sup> These records should be signed by the student treasurer and also reviewed and signed by the faculty advisor and central treasurer. It is important that collections are appropriately documented in both the students’ and central treasurer’s accounting records to reduce the risk of money being lost or misused. Additionally, cash and checks should be deposited daily or as quickly as possible to prevent the loss or misuse of cash.

We reviewed 41 remittances from the student treasurers to the central treasurer totaling \$23,676,<sup>6</sup> representing activity from 18 clubs, to determine if they were properly documented by both the student treasurer and central treasurer. None of the 41 remittances were properly documented by both parties, as indicated below.

- Student Treasurers’ Records – For all remittances reviewed, we found the student treasurers’ records were lacking one or more of the following items: profit and loss statements, up-to-date activity ledgers, and inventory control forms when needed to control inventory. For example, one remittance for a fundraiser totaling \$5,461 was missing a profit and loss statement.
- Central Treasurer’s Records – While the central treasurer accounted for the collections received from the student treasurers for all 41 remittances in her accounting records, she did not provide the student treasurers with a duplicate press-numbered receipt for the remittances received from the student treasurers and faculty advisors.<sup>7</sup> For example, one remittance

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<sup>5</sup> Items on-hand and held for resale should be adequately safeguarded against loss, theft, or damage by securing them in an appropriate location with limited access and the inventory should be controlled through the use of an inventory control form.

<sup>6</sup> We selected a random sample of three months by using a computerized random number generator of the 12 months within our scope period of July 1, 2012 through June 30, 2013 which produced the test months of September 2012, November 2012 and March 2013.

<sup>7</sup> The central treasurer manually numbered the cash receipts for her records only, but never provided the clubs with a duplicate receipt.

totaling \$1,379 for a bake sale and wreath fundraiser lacked a receipt from the central treasurer to the student treasurer and documentation to indicate the total amount collected for each item.

Additionally, we examined the same 41 remittances from the student treasurers to the central treasurer to verify that moneys were remitted in a timely manner. We were unable to determine if 40 collections totaling \$22,491,<sup>8</sup> comprised of \$8,760 in cash and \$13,731 in checks, were remitted timely to the central treasurer because the collections were not supported by documentation indicating the collection date. When cash collections are not supported by appropriate documentation, it is difficult to determine if cash was remitted to the central treasurer in a timely manner. As a result, cash not remitted promptly to the central treasurer is subject to increased risk of loss or misuse. The District's failure to effectively oversee the extra-classroom activity fund collections provides little or no assurance that cash receipts are properly accounted for and increases the risk that such moneys could be used for purposes other than as intended.

Cash Disbursements – A good system of internal controls provides that the District pay only for purchases that are supported by sufficient documentation. Cash disbursements should be made only upon receipt of payment orders signed by the student treasurer, faculty advisor and chief faculty counselor.<sup>9</sup> Purchases also should have documentation to support that the expenditures were approved for payment and the purchases were made for appropriate purposes.

We reviewed 52 disbursements<sup>10</sup> totaling \$20,313, representing activity from 17 clubs, to determine whether the proper documentation was present in the student treasurers' and central treasurer's records. We found that, other than some minor exceptions that we discussed with District officials, there was adequate documentation to support disbursements and the disbursements were adequately accounted for.

The District's failure to establish and implement adequate controls by providing specific guidance through well-developed policies and procedures, requiring employees to be trained, and promptly correcting weaknesses identified by the external auditor caused these recordkeeping deficiencies. These deficiencies increase the risk

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<sup>8</sup> The remaining balance of \$1,185 in collections was due to transfers from closing inactive clubs.

<sup>9</sup> The District's chief faculty counselor is the K-6 building principal.

<sup>10</sup> We selected a random sample of three months by using an electronic spreadsheet function (computerized random number generator) of the 12 months within our scope period of July 1, 2012 through June 30, 2013, which produced the test months of November 2012, January 2013 and May 2013.

that receipts will not be properly recorded and deposited and that disbursements will not be appropriate.

## **Recommendations**

1. District officials should establish and the Board should adopt adequate policies and procedures for extra-classroom activity funds, including procedures for recordkeeping, closing out inactive clubs and the remittance of cash in a timely manner.
2. District officials should ensure the central treasurer and faculty advisors are properly trained and maintain adequate and appropriate accounting records.
3. District officials should ensure that all extra-classroom activity fund cash receipts are supported by appropriate documentation.
4. District officials should ensure that cash and checks collected for extra-classroom activities are remitted to the central treasurer in a timely manner with supporting documentation attached.
5. The central treasurer should use pre-numbered receipts for all extra-classroom activity fund receipts.
6. Faculty advisors should ensure that student treasurers maintain appropriate accounting records for all receipts.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

*Salem Central School District  
Corrective Action Plan for the Audit Findings from  
The State of New York  
Office of the State Comptroller  
Extra-Classroom Activity Funds*

**Recommendation:**

“District officials should establish and the Board should adopt adequate policies and procedures for extra-classroom activity funds, including procedures for recordkeeping, closing out inactive clubs and the remittance of cash in a timely manner.”

**Salem Central School District Response:**

The District has provided a workshop, which was given by QueStar III, on the proper procedures for the Extra Classroom Activity Accounts. This workshop was a complete overview of Finance Pamphlet 2. The District also created a tally sheet “Fiscal Accountability Form”, where all sales can be documented. We have purchased pre-numbers admission tickets to aid in the control over admission fees and their accountability. Advisors have been notified when their clubs are not making timely deposits, and have been advised of the importance of timely, accurate deposits, along with all required signatures. The Business Office is seeking assistance from the Administration to direct the Extra Classroom Advisors to ensure the Advisors and their students complete all required Cash Receipts, Cash Disbursements, Fundraiser tally sheets and Profit and Loss Statements.

The Superintendent of Schools will be meeting with the Extra Classroom Activity Advisors and their Officers. He will be reviewing these audit findings with them, and will stress the importance of 100% compliance with the recommendations presented. Additionally, the District has established and the Board has adopted (at the 12/18/13 BOE Meeting) a policy that all extra-classroom activities must follow the guidelines as specified in the Finance Pamphlet 2 “The Safeguarding, Accounting, and Auditing of Extra-Classroom Activity Funds”.

**Recommendation:**

“District officials should ensure the central treasurer and faculty advisors are properly trained and maintain adequate and appropriate accounting records.”

**Salem Central School District Response:**

The District has printed copies of the Finance Pamphlet 2 “The Safeguarding, Accounting, and Auditing of Extra-Classroom Activity Funds”, and asked that all Extra-Classroom Activity Advisors please pick up a copy and read its content entirely, and share it with their student treasurer. Additionally, Administration has confirmed that they will hold a special meeting with the Advisors and their Student Treasurers to ensure full

compliance with these procedures. Administration will stress the importance of these polices and procedures. The District has always encouraged and supported professional development for its faculty and staff. Should additional training be required, the district will provide it.

**Recommendation:**

“District officials should ensure that all extra-classroom activity funds cash receipts are supported by appropriate documentation.”

**Salem Central School District Response:**

District officials are reviewing every cash receipt to ensure the deposit has the appropriate supporting documentation. In the event documentation is lacking, we are requiring additional documentation.

**Recommendation:**

“District officials should ensure that the cash and checks collected for the extra-classroom activities are remitted to the central treasurer in a timely manner with supporting documentation attached.”

**Salem Central School District Response:**

On December 18, 2013 the Board adopted, into their extra-classroom activity policy manual (policy #5520), the fact that “*All funds collected must be deposited into the extra-classroom activity bank account within 72 hours of collection*”. District officials will be seeking assistance from Administration to ensure compliance with this Board policy.

**Recommendation:**

“The central treasurer should use pre-numbered receipts for all extra-classroom activity fund receipts.”

**Salem Central School District Response:**

Each extra-classroom activity club used to have un-numbered receipt booklets. The District has removed all receipt booklets from the extra-classroom activity folders. The central treasurer has pre-numbered one booklet. All extra-classroom activity clubs now use the same booklet, and the central treasurer maintains this booklet. Once a deposit is made for an extra-classroom activity club a copy of the pre-numbered receipt is provided to the extra-classroom activity club for its records, along with all supporting documentation.

**Recommendation:**

“Faculty advisors should ensure that student treasurers maintain appropriate accounting records for all receipts.”

**Salem Central School District Response:**

The district has instructed the student treasurers of the need to complete their own financial ledger, which lists all financial transactions, and is maintained in each of the extra-classroom activity club’s individual folder. The student treasurers have also been advised of the need to complete the financial ledger that is on the “Payment Order” booklet for each club.

\_\_\_\_\_  
Signature Karen MacGregor

3-10-2014  
\_\_\_\_\_  
Date

\_\_\_\_\_  
Business Manager  
Title

## 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 oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

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 and/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 objective and scope by selecting for audit those areas most at risk. We selected the extra-classroom activity fund for further audit testing.

To accomplish the objective of this audit, our procedures included the following;

- We reviewed policies pertaining to the extra-classroom activities fund.
- We interviewed District personnel to determine what oversight of extra-classroom activities occurs.
- We reviewed the external auditor's written audit findings on the extra-classroom fund and interviewed the District personnel to determine what actions were taken to correct findings.
- We requested accounting records for each club included in the extra-classroom activity fund.
- We reviewed bank statements for the extra-classroom activities fund for our scope period to quantify total receipts and total disbursements.
- We reviewed and tested cash receipts for three randomly selected months to determine if they were appropriately documented in both the student and central treasurer's records, if the clubs remitted cash collections to the central treasurer timely, and if cash collections were deposited timely.

- We reviewed and tested cash disbursements for three randomly selected months to determine whether they were appropriately documented in both the student and central treasurer’s records and were for appropriate purposes. We also reviewed the canceled check images to verify that the canceled checks agreed with accounting records.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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