



# Rensselaer City School District

## Internal Controls Over Extra-Classroom Activity Funds

Report of Examination

Period Covered:

July 1, 2011 — February 28, 2013

2013M-153



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**

September 2013

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 Rensselaer City 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 Rensselaer City School District (District) is located in the City of Rensselaer 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 education affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with the other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school building in operation within the District, with approximately 1,050 students and 220 employees. The District's budgeted expenditures for the 2012-13 fiscal year totaled approximately \$21.7 million, which were funded primarily with State aid, real property taxes, and grants. During 2011-12, the District's extra-classroom activity fund recorded \$72,645 in receipts and \$70,470 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

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 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: cash management, cash receipts and disbursements, purchasing, claims processing, asset management, extra-classroom activities, payroll and personnel 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 fund area and, therefore, we examined internal controls over the extra-classroom activity fund for the period July 1, 2011, to February 28, 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 are 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 provided 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

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 of education 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 extra-classroom activity fund comprises 27 clubs which recorded \$72,645 in receipts and \$70,470 in disbursements in 2011-12. The cash balance as of February 28, 2013, was \$37,827.

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, six student clubs were inactive but had deposits totaling \$4,450 that were not closed out. In addition, the student treasurers lacked documentation/accounting records for remittances totaling \$10,188 and documentation, such as itemized receipts and payment orders, for disbursements totaling \$16,736. The central treasurer lacked duplicate receipts for remittances totaling \$13,188 and documentation, such as itemized receipts and payment orders, for disbursements totaling \$8,965. These deficiencies increase the risk that receipts will not be deposited and disbursements will not be appropriate.

Guidance — The Board and District officials are responsible for adopting and implementing policies and procedures to protect extra-classroom activity funds, and for providing training to the District's central treasurer and faculty advisors. District officials should promptly correct any weaknesses identified as a result of internal audits of the District's activity fund.

Although the Board established a policy for the extra-classroom activity fund, the policy is not adequate because it does not provide

detailed procedures for the financial management and recordkeeping of the extra-classroom activity fund or for closing inactive clubs. 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, although the District has an internal auditor who provides training on extra-classroom activity funds to other school districts, this training has not been provided to the District's central treasurer or faculty advisors. Furthermore, the District's internal auditor audited the extra-classroom activity fund and noted weaknesses related to a lack of training, poor recordkeeping, and the failure to close inactive clubs; however, the District did not take action to correct these weaknesses. For example, during our audit scope period, we found that six of the District's 27 clubs were not active<sup>1</sup> and that as of February 28, 2013, these clubs had balances totaling \$4,450 on deposit in the extra-classroom activity fund's bank account. Because these clubs are inactive, these moneys are not monitored and are therefore at an increased risk of being lost or misappropriated.

We requested records from all 27 clubs included in the extra-classroom activity fund. We did not receive records for any of the six inactive clubs. Of the 21 active clubs, we received some accounting records from 16 clubs and did not receive any records from the remaining five clubs. According to District officials, no records are maintained for these clubs. To address this, District officials must ensure that faculty advisors are trained on the recordkeeping requirements for each club so that accounting records will be maintained by and for each club.

Cash Receipts — Students are responsible for cash collections and must remit collections for each fundraiser to the central treasurer for deposit. Students should prepare a summary of collections and the central treasurer should issue a receipt to the students. Students collecting money should issue duplicate receipts for collections or use some other method that would accurately document the source, date, amount, and purpose of cash collections. It is important that collections be adequately documented in both the students' and central treasurer's accounting records to reduce the risk of moneys being lost or misused.

We reviewed 27 remittances from students to the central treasurer totaling \$13,188<sup>2</sup> to determine if they were properly documented

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<sup>1</sup> The Board did not appoint activity advisors to these clubs and the clubs did not have any financial transactions during our audit scope period.

<sup>2</sup> We used an electronic spreadsheet formula to select a random sample of three months and reviewed all moneys remitted to the central treasurer for deposit during those months according to the central treasurer's records. The months selected were April 2012, September 2012, and January 2013.



by both the student treasurer and central treasurer. None of the 27 receipts were adequately documented:

- Student Treasurer's Records — Twenty-four of the 27 remittances totaling \$10,188 were not adequately documented. For example, one remittance for a fundraiser totaling \$875 was not documented in the accounting records. It could not be confirmed if the remaining three remittances totaling \$3,000 were properly documented because they were from clubs that did not provide us with any records.<sup>3</sup> However, we traced these remittances to the bank statements and found that, based on the records available, these remittances were deposited by the central treasurer.
- Central Treasurer's Records — None of the 27 remittances totaling \$13,188 were adequately documented. They were missing a copy of the duplicate receipt the central treasurer provided to the student treasurer or documentation of the total amount realized from sales (where applicable). For example, one remittance totaling \$1,463 for drama club ticket sales lacked a receipt from the central treasurer to the student treasurer and documentation to indicate the total amount realized from the sales drive.

Cash Disbursements — A good system of internal control 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>4</sup>, along with documentation to support the expenditures approved for payment.

We reviewed 22 disbursements<sup>5</sup> totaling \$16,736 to determine whether the proper documentation was present in the student treasurers' and central treasurer's records. None of the 22 disbursements were adequately documented:

- Student Treasurers' Records – None of the 22 disbursements totaling \$16,736 were supported by documentation, such as itemized receipts or invoices, signed payment orders, or documentation of the disbursements in the student treasurers'

<sup>3</sup> These three receipts were from three of the five active clubs that did not maintain accounting records.

<sup>4</sup> The District's chief faculty counselor is the High School/Middle School building principal.

<sup>5</sup> We used an electronic spreadsheet formula to select a random sample of three months and reviewed all disbursements made during those months according to the central treasurer's records. The months selected were December 2011, November 2012, and October 2012.



accounting records. For example, one disbursement totaling \$2,607 lacked an invoice and was not recorded in a student ledger. Another disbursement totaling \$960 lacked an invoice and a signed payment order, and was not recorded in a student ledger.

- Central Treasurer's Records — Ten of the disbursements totaling \$3,933 were made without supporting documentation, such as an itemized receipt or invoice. Three of the disbursements totaling \$5,032 included a receipt or invoice, but did not include a signed payment order. For example, one disbursement totaling \$2,344 that was for a donation made by a club included a payment order but did not contain evidence of class consent to donate the moneys.<sup>6</sup>

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 internal auditor, caused the record-keeping deficiencies previously discussed. These deficiencies increase the risk 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 record keeping, closing out inactive clubs, and disposing of the related moneys of inactive clubs.
2. District officials should ensure the central treasurer and faculty advisors are properly trained, follow the requirements for extra-classroom activity funds, and maintain adequate and appropriate accounting records.
3. District officials should promptly take action to correct weaknesses identified as a result of the internal auditor's audit of the extra-classroom activity fund.
4. Faculty advisors should ensure that student treasurers maintain appropriate accounting records for all receipts and disbursements.

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<sup>6</sup> The club members should document their agreement to donate funds.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



**RENSELAER CITY SCHOOL DISTRICT**  
25 Van Rensselaer Drive, Rensselaer, New York 12144

August 22, 2013

[REDACTED]  
NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glen Falls, NY 12801

Dear [REDACTED]:

Please accept this letter to the findings outlined in the Comptroller's Office Report of Examination for the period July 1, 2011 to February 28, 2013 that was reviewed with the Board of Education President and District staff during the exit conference held on July 30, 2013.

Based upon the information contained in the audit of internal controls over extra-classroom activity funds the district will:

- Adopt a new policy and procedures for extra-classroom activity funds.
- Provide training for the central treasurer and faculty advisors.
- Improve record keeping and close inactive accounts per the internal auditor recommendations.
- Require that faculty advisors ensure that the student treasurer maintain appropriate records for all receipts and disbursements.

The District would like to thank the members of your field team for their competent, courteous and professional manner in which they conducted themselves during the examination period.

Very truly yours,

Sally Ann Shields  
Superintendent

Cc: Board of Education  
William Burke, School Business Official

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## 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: cash management, cash receipts and disbursements, purchasing, claims processing, asset management, extra-classroom activities, payroll and personnel 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 procedure 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 the area 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 internal auditor's written audit findings on the extra-classroom activity fund and interviewed the internal auditor and other 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. For all clubs which did not provide us with records, we interviewed District officials to determine why we did not receive records and to identify inactive clubs.
- 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 students' and central treasurer's records and were deposited intact.
- We reviewed and tested cash disbursements for three randomly selected months to determine whether they were adequately documented in both the students' 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 the accounting records.

We conducted this performance audit in accordance with generally accepted government auditing standards (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  
Nathalie N. Carey, Assistant Comptroller

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