



Newcomb Central School District

Extra-Classroom Activity Fund

Report of Examination

Period Covered:

July 1, 2013 — April 30, 2015

2015M-127



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2015

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 Newcomb Central School District, entitled Extra-Classroom Activity Fund. 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 New York State 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 Newcomb Central School District (District) is located in the Town of Newcomb in Essex County. The District is governed by the Board of Education (Board) which is composed of 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District has one school with approximately 100 students and 35 employees. The District's budgeted expenditures for the 2014-15 fiscal year were approximately \$6 million and were funded primarily with State aid and real property taxes. During the 2013-14 fiscal year, the District's extra-classroom activity fund (activity fund) recorded \$38,740 in receipts and \$41,971 in disbursements.

Objective

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

- Are internal controls over the activity fund appropriately designed and operating effectively?

Scope and Methodology

We examined the District's internal controls over the activity fund for the period July 1, 2013 through April 30, 2015.

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 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 General Municipal Law, Section 2116-a (3)(c) of New York State 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 Fund

The Regulations of the Commissioner of Education (Regulations) require the Board to make rules and regulations to safeguard, account for and audit all moneys received and derived from extra-classroom activities (activities). The Board and District officials must adopt and implement policies and procedures to protect moneys, including guidance for closing inactive clubs and disposing of the related money. The Regulations also require the Board to appoint a central treasurer who is responsible for maintaining records of activity fund receipts and disbursements. Each extra-classroom activity must 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. The Board and District officials must enforce policies and procedures established to protect activity fund money. This includes guidance for the central treasurer and student activity treasurers on how to properly maintain records of cash receipts and disbursements.

Generally, money is raised by student activity organizations. Students raise and spend these funds to promote the general welfare, education and morale of all students and finance the normal and appropriate activities of the student body. During our audit period, the District's eight¹ accounts in the activity fund recorded \$66,881 in receipts and \$74,969 in disbursements and, as of April 30, 2015, the accounts had a combined cash balance of \$16,744.

The District's controls over the activity fund were not operating effectively. The Board did not ensure that District officials implemented and enforced its policy governing the operations of the activity fund. Consequently, we found that 27 of 30 collections totaling \$20,029 that were remitted to the central treasurer for deposit did not have adequate supporting documentation. In addition, six of seven student treasurers' ledgers did not agree with the central treasurer's ledger. The failure to maintain and oversee the activity fund in accordance with the Board's policy increases the chance that extra-classroom activity money could be lost or misused.

Policy and Oversight

The Board and District officials are responsible for protecting and providing oversight of the District's cash assets, including activity fund moneys. These responsibilities include adopting and implementing policies and procedures that describe the records that District personnel and students must maintain and the duties and

¹ The eight accounts include the school store account, which has been inactive since the 2008-09 fiscal year.

control procedures that they must follow to adequately safeguard money. The Board should also appoint a faculty auditor² to oversee the financial management of activity funds. Having a good system of internal controls over these funds helps minimize the risk that errors or irregularities could occur and remain undetected and uncorrected.

Although the Board adopted a policy³ governing the operations of the activity fund, it did not ensure that District officials enforced the policy. For example, although the policy outlines that leftover money from inactive activities should be transferred to the yearbook account, we found that the school store has been inactive since the 2008-09 fiscal year, but its remaining funds of \$418 have not been transferred to the yearbook account. In addition, faculty advisors did not ensure that student treasurers issued duplicate press-numbered receipts or used some other method that would adequately document the source, date, amount and purpose of collections when collecting cash at fundraisers for activities. The Board had also not appointed a faculty auditor to oversee the management of the activity fund.

The lack of proper oversight by the Board and District officials has resulted in money not being maintained in accordance with Board policy, which increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Cash Receipts

Students are responsible for collecting money at fundraisers and remitting the collections to the central treasurer for deposit. When collecting moneys, students should issue duplicate press-numbered receipts or use some other method that would adequately document the source, date, amount and purpose, such as a daily sales report. 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 practices call for student treasurers to remit collections to the central treasurer and the central treasurer to deposit those collections as soon as possible to prevent the loss or misuse of collections. Furthermore, it is important that the central treasurer deposit collections intact⁴ to reduce the risk of irregularities occurring with the handling of collections.

We reviewed a random sample of 30 collections⁵ totaling \$28,414 remitted to the central treasurer for deposit to determine whether

² The faculty auditor is responsible for reviewing the extra-classroom financial records to determine if correct procedures are being used to account for activity money and certifying the accuracy of the entries in the records and the account balances listed in the ledgers.

³ On July 26, 2010

⁴ Intact means in the same amount and form (cash or check) in which they were received.

⁵ We used a computerized random number generator to select 15 collections from student deposit forms and 15 collections from the central treasurer's ledger.

the collections were supported by receipts or some other form of documentation, accurately accounted for in the central treasurer's ledger and deposited timely and intact. We found that all 30 collections were accurately accounted for in the central treasurer's ledger. However, 27 of the 30 collections totaling \$20,029 did not contain adequate supporting documentation of the collections, such as duplicate press-numbered receipts or daily sales reports. Instead, the student treasurers or faculty advisors, or both, provided the central treasurer with a student deposit form, along with the collections, that generally included the activity fund name, type and date of the fundraiser and the composition and total of the collections remitted for deposit. Without some form of documentation of the collections, the central treasurer is unable to ensure that all moneys collected for the activities are accounted for and properly remitted to her for deposit. We also found that the central treasurer did not issue press-numbered receipts to the activities for collections that were remitted for deposit.

Due to the lack of supporting documentation for the collections, we could not determine the composition and exact dates the students collected money or if the collections were remitted to the central treasurer timely and intact. Therefore, we compared the dates and the composition of the collections recorded on the student deposit forms with the validated deposit slip dates and compositions to determine if collections were deposited timely and intact after being remitted to the central treasurer. We found that all 24 of the collections that were supported by a student deposit form containing a date were deposited timely and that all 10 collections that were supported by a student deposit form containing the composition of the collections were deposited intact. However, the student deposit form did not contain a date for six collections totaling \$1,975. Therefore, we were unable to determine if the collections were deposited timely. In addition, the student deposit form did not contain the composition for 20 collections totaling \$15,132, and, therefore, we were unable to determine if the collections were deposited intact.

When students do not maintain adequate documentation to support collections, District officials cannot ensure that students are adequately accounting for all collections and remitting them to the central treasurer and that the collections are deposited timely and intact. Furthermore, when 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.

Student Ledgers

The student treasurers should maintain a ledger to account for all receipts and disbursements that includes a daily running cash balance. It is important for faculty advisors to guide the student treasurers in entering information into their ledgers and to periodically check the student treasurers' account balances. The student treasurers' ledgers must periodically be compared to the central treasurers' ledgers to verify agreement between the ledgers and any discrepancies must be investigated.

We reviewed all seven activities that were active during our audit period and found the student treasurers for all of the activities maintained a ledger. However, we compared the seven student ledgers that were maintained to the central treasurer's ledger and found that only one contained all receipts and disbursements and a running cash balance that agreed with the central treasurer's ledger. When student ledgers do not agree with the central treasurer's ledger and they are not periodically reviewed, the District has an increased risk that errors or irregularities could occur and remain undetected.

Cash Disbursements

The central treasurer should disburse money for activities only upon receiving payment orders signed by the student treasurer and faculty advisor. In addition, disbursements should have documentation, such as itemized receipts or invoices, to support the expenditures approved for payment. When payments are made without adequate supporting documentation, District officials cannot ensure that the purchases are made for appropriate purposes.

We reviewed 68 disbursements totaling \$64,791⁶ made from the activity fund accounts during our audit period to determine if they were supported by approved payment forms and adequate documentation of the purchases and were for appropriate activities. Except for some minor exceptions that we discussed with District officials, we found the disbursements were supported by adequate documentation and were for appropriate activities.

Recommendations

1. The Board and District officials should ensure that the activity fund is maintained in accordance with District policy, including closing out inactive funds.
2. The Board should appoint a faculty auditor to oversee the management of extra-classroom activity money.
3. District officials should ensure that the central treasurer receives supporting documentation for all activity fund

⁶ Our sample consisted of selecting all disbursements that were made during our audit period, except disbursements for cash advances and start-up cash used to make change at fundraising events.

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.

4. The central treasurer should issue duplicate press-numbered receipts for all activity fund receipts that are remitted to her for deposit.
5. Faculty advisors should ensure that student treasurers maintain a student ledger showing all receipts, disbursements and a running cash balance that can be reconciled with the central treasurer's balance periodically.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Newcomb Central School District

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August 3, 2015

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

RE: Response Letter and Corrective Action Plan

To Whom It May Concern,

I am writing in response to our New York State Comptroller's audit and exit meeting of Thursday, July 30, 2015. Before addressing the report itself, I would like to state that we have once again found the audit a positive experience. Our auditor, [REDACTED] should be applauded. He was always sensitive to the activities and schedule of the school. We appreciated his professionalism and assistance.

We have reviewed the audit, and agree with the findings. Please accept this as our response letter and corrective action plan. Listed below please find a list of your recommendations, and our corrective action plan.

1. The Board and District Officials should ensure that the activity fund is maintained in accordance with District policy, including closing out inactive funds.

Newcomb Central School in response to the above recommendation will review all inactive funds on an annual basis at our annual reorganization meeting. The Board was aware of the inactive fund, but had hoped it would be made active again. We recognize now that it should have been closed, and similar situations will not occur again.

2. The Board should appoint a faculty auditor to oversee the management of extra-classroom activity money.

Newcomb accepts the recommendation to appoint a faculty auditor and has in fact, found a teacher willing to take the position. She is already being trained, and will be appointed by the board at the September board meeting.

3. 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.

While the monies were all properly accounted for by the business office, there was a definite issue with proper documentation by the advisors. The business office will be verifying with the faculty auditor that all activities include the proper documentation, and if issues of improper documentation continue to arise the superintendent's office will be notified.

4. The central treasurer should issue duplicate press-numbered receipts for all activity fund receipts that are remitted to her for deposit.

The district has duplicate receipts, and the central treasurer will use them for all activity fund receipts that are remitted for deposit.

5. Faculty advisors should ensure that student treasurers maintain a student ledger showing all receipts, disbursements and a running cash balance that can be reconciled with the central treasurer's balance periodically.

All activity fund faculty and student treasurers will be given an excel ledger for proper maintaining of receipts and disbursements with running balances that will be reconciled to the treasurer's balances. The faculty auditor will work with advisors and students to verify the use and reconciliation.

Sincerely,

Clark "Skip" Hults
Superintendent of Schools
Newcomb Central School

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if District officials established effective internal controls over the activity fund for the period July 1, 2013 through April 30, 2015.

To accomplish our audit objective 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 the activity fund to gain an understanding of the internal controls over the activity fund. We documented any associated effects of deficiencies found in those controls.
- We reviewed a random sample of 30 collections that were remitted to the central treasurer for deposit to determine whether the collections were supported by receipts or some other form of documentation, accurately accounted for in the central treasurer's ledger and deposited timely and intact.
- We reviewed all seven activities that were active during our audit period to determine if the student treasurers maintained ledgers showing all receipts, disbursements and running cash balances that agreed with the central treasurer's ledger.
- We reviewed 68 disbursements made from the activity fund accounts during our audit period to determine if they were supported by approved payment forms and adequate documentation of the purchases and were for appropriate 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.

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Andrew A. SanFilippo, Executive Deputy Comptroller
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