



Otsego Northern Catskills Board of Cooperative Educational Services

Extra-Classroom Activity Funds

Report of Examination

Period Covered:

July 1, 2014 – June 30, 2015

2015M-288



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2016

Dear Board of Cooperative Educational Services (BOCES) Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage their BOCES efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES' 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 BOCES operations and Board of Education governance. Audits also can identify strategies to reduce BOCES costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Otsego Northern Catskills BOCES, entitled 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 New York State General Municipal Law.

This audit's results and recommendations are resources for BOCES 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 Otsego Northern Catskills Board of Cooperative Educational Services (BOCES) is governed by a nine-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent is the chief executive officer of BOCES and is responsible, along with other administrative staff, such as the BOCES Business Official, for the day-to-day management of BOCES and for regional planning and coordination. The Board also appoints two central treasurers (one for each building that BOCES operates) to oversee and account for all extra-classroom activity funds.

BOCES operates two buildings in different locations and provides educational services to children from 19 component districts. Extra-classroom activity funds are raised by student classes and clubs that promote good business practices and morale of all students. Students raise and spend funds to finance extracurricular activities. Donations and revenues from the sale of products or services provided by a class or club raise money needed to pay for the student-approved disbursements. BOCES' extra-classroom activity funds are maintained by 27 classes and clubs which recorded almost \$118,000 in receipts and \$124,000 in disbursements for the 2014-15 fiscal year. The combined cash balances of all the extra-classroom activity funds was almost \$44,500 as of June 30, 2015.

Objective

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

- Did the Board and BOCES officials ensure that extra-classroom activities were properly safeguarded?

Scope and Methodology

We examined internal controls over extra-classroom activity funds for the period July 1, 2014 through June 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of BOCES
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with BOCES officials, and their comments, which appear in Appendix A, have been considered in preparing this report. BOCES officials agreed with our recommendation and indicated they planned to take 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 Funds

Regulations of the Commissioner of Education (Regulations) of the New York State Education Department (SED) are formulated not only to safeguard extra-classroom funds, but also to provide schools with the opportunity to teach students good business practices through participation in handling such funds and operating a successful business. SED publishes a pamphlet which presents a plan for the management and accounting of these funds.¹ The Board should follow this plan or adopt adequate rules and regulations of its own for the conduct, operation and maintenance of extra-classroom activities and for safeguarding, accounting and auditing of all money received. Regulations require the Board to appoint a central treasurer responsible for maintaining records of receipts and disbursements for all extra-classroom activity funds, issuing duplicate receipts to student treasurers for all cash deposits, approving payment orders and signing checks.² The regulations also require regular reporting of extra-classroom financial activity to the Board, semi-annual internal audits and annual audits by an independent auditor.

Each extra-classroom activity has a student treasurer and faculty advisor who are responsible for maintaining independent accounting records of receipts and disbursements and approving payment orders. These records should be periodically compared to the central treasurers' records of all the extra-classroom activity funds to ensure that they match and that discrepancies are detected and addressed in a timely manner. In addition, the central treasurers' records should be reconciled monthly to the bank statements. Regulations also require procedures to ensure that all fundraising receipts are accounted for – for example, by issuing confirmation receipts or reconciling the potential sales³ to the accounting records and deposits.

The Board and BOCES officials generally ensured that the extra-classroom cash receipts and disbursements were properly safeguarded. The Board adopted policies based on the SED regulations and reviewed monthly extra-classroom activity reports. Under the guidance of

¹ The “Safeguarding, Accounting and Auditing of Extra-Classroom Activity Funds” pamphlet is available at http://www.p12.nysed.gov/mgtserv/accounting/extra_classroom_activities_fund.html.

² BOCES requires an additional signature on all checks. Authorized check signers include the two central treasurers, the two building principals and the Director of Student Services.

³ Some fundraising activities use a pre-sale form and collect cash prior to purchasing the inventory to be sold, while other fundraising activities order the items first and then sell the inventory.

its faculty advisor, each class or club decides on an appropriate fundraising activity and participates in all aspects of running and accounting for the activity. The central treasurers maintain electronic accounting records, and the student treasurers maintain separate manual accounting records for the individual funds. Each central treasurer provides periodic receipt and disbursement reports to the student treasurers and faculty advisors, who compare the cash balance to their manual records and reconcile any differences.

Central treasurers also issue duplicate receipts for all money they receive from the classes or clubs. Three individuals (the student treasurer, faculty advisor and central treasurer) are required to sign payment orders to authorize issuance of a check, while two signatures (of the central treasurer and building principal) are required on all checks. The BOCES Treasurer, who is independent of the extra-classroom funds, reconciles the bank statements to the two central treasurers' accounting records to further segregate duties. The independent auditor annually audits the extra-classroom activity funds. Finally, the BOCES Business Official performs semi-annual internal audits of all extra-classroom activity clubs and classes. However, while the central treasurers follow SED guidance, they do not have detailed procedures in place to formally reconcile the potential sales from fundraising activities to the amounts collected and deposited. For example, we tested five fundraising activities and found that no one reconciled final fundraising activity, comparing the amount of items purchased and sold to the amount of cash collected and recorded.

BOCES officials told us they did not perform the fundraising activity reconciliations because these were not specifically required by SED. For the past several years they tried to gradually improve controls but did not want to overly burden the faculty advisors or central treasurers all at once.

We tested 30 disbursements to determine if they were properly recorded, reported and supported and found no discrepancies. We also selected a sample of five fundraising activities to determine if all sales receipts were collected, recorded, reported and deposited. None of the activities included a final accounting of the fundraising; therefore, we reviewed the total inventory purchased, projected the potential sales and compared sales to the amounts recorded and reported in the general ledger. We then traced those deposits to the bank and found that, other than the lack of a final accounting, four of the five fundraising activities demonstrated good controls over cash collections and inventory, and all projected sales were recorded, reported and deposited.

However, for the remaining fundraising activity (selling individual candy bars), some of the items were not accounted for. Of the total number of 2,704 candy bars received, at a suggested retail price of \$1 each, we could not account for 622 candy bars which cost \$373. Therefore, this activity fund potentially lost \$249 in net profit and absorbed the additional cost of the candy bars. Officials told us the faculty advisor could not account for the missing candy bars or receipts.⁴ Had formal, final accountings been regularly performed for each fundraising event, someone may have discovered the discrepancy and followed up on it in a timely manner, including recording and supporting what happened in the class records.

While we commend officials for their efforts to establish strong controls over extra-classroom activity funds, there is need for further improvement in their system.

Recommendation

1. BOCES officials should develop policies and procedures requiring a final accounting or reconciliation of each fundraising activity, which should be reviewed and any significant differences resolved and reported to the appropriate level of management. A review of the final accounting also should be incorporated into the internal audit performed semi-annually.

⁴ The BOCES Business Official told us that \$126 of the candy bars were donated to school events or students, \$272 of the candy bars were not turned in, and the remaining \$224 of the candy bars were discarded or unaccounted for. The Business Official also informed us that the candy bars had expiration dates prior to June 30, 2015. No supporting documentation for these explanations was provided.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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

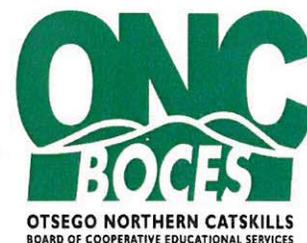
Lynn A. Chase

Director of Management Services

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January 5, 2016

H. Todd Eames, Chief Examiner
Office of the State Comptroller
Division of Local Government & School Accountability
Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames,

The Otsego Northern Catskills BOCES is in receipt of the draft audit report *Extra-Classroom Activity Funds* for the period of July 1, 2014 through June 30, 2015, prepared by the Office of the State Comptroller. Before addressing the report itself, on behalf of the BOCES Board of Education and Administration, I would like to thank the local field staff of the Comptroller's Office for making this audit a positive experience. The audit staff was courteous and exhibited professionalism in conducting their duties associated with this audit.

As per the guidance from the New York State Education Department, the purpose of Extra-Classroom Activity Funds is to provide learning experiences for students in the business procedures needed to safeguard the collection, deposit, and disbursement of money along with the filing of sales tax revenue. At Otsego Northern Catskills BOCES, we work as a team to provide the optimal learning experience in this area for our students.

We have reviewed the audit report and agree with the one finding below. Please accept this as our response letter and corrective action plan.

Audit Recommendation:

BOCES officials should develop policies and/or procedures requiring a final accounting reconciliation of each fundraising activity, which should be reviewed and any significant difference resolved and reported to the appropriate level of management. A review of the final accounting also should be incorporated into the internal audit performed semi-annually.

Implementation Plan of Action:

Our plan of action will include training for our Class/Club Advisors and Principals, which will focus on the importance of cost and inventory control with how it relates to the final accounting reconciliation of a fundraiser. Any problems with a fundraiser will be discussed by the Advisor with the student members and noted in the student account meeting minutes. We will also implement a new reporting mechanism to be used by administration to track the status of all fundraisers to ensure each fundraiser has been properly reconciled before the end of the year. The format of the semi-annual internal audits will be changed to incorporate the accounting reconciliation of each fundraiser to ensure accuracy of the records.

Implementation Date:

February 15, 2016

Persons Responsible for Implementation:

Student Programs Director and Director of Management Services

In conclusion, we will move forward with our corrective action plan in order to strengthen the internal controls over our Extra-Classroom Activity Funds. Our mission at Otsego Northern Catskills BOCES is to provide lifelong learning opportunities for our students, which includes Extra-Classroom activities, so ensuring the accuracy of the funds is a priority.

If you have any questions, please feel free to contact me at (607) 588-6291 ext. 172 or email me at lchase@mail.oncboces.org.

Regards,

Lynn A. Chase
Director of Management Services

cc: Otsego Northern Catskills BOCES Board of Education
Nicholas J. Savin, District Superintendent
Jennifer Bolton-Carls, Deputy Superintendent
Joseph Boan, Student Programs Director

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Board's role in safeguarding extra-classroom activity funds. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed SED rules, regulations and guidelines that govern the safeguarding, auditing and accounting for extra-classroom activity funds, and the related policies, procedures and internal controls adopted by the Board.
- We reviewed Board minutes, independent audit reports, monthly Board reports and internal audit reports and interviewed BOCES officials and employees to determine how extra-classroom activity funds are safeguarded by BOCES officials.
- We interviewed BOCES central treasurers and reviewed records and reports to gain an understanding of the types of fundraisers and other sources and types of receipts collected, the types of disbursements and the manner in which those activities and transactions are approved, recorded, reported and monitored by the students, advisors, central treasurers and other BOCES employees.
- Using general ledger reports, we selected the four highest-grossing fundraising activities and one fundraiser reporting the greatest loss. Using invoices and price lists, we projected the potential sales which we compared to the accounting records and bank statements to determine whether all the receipts that should have been collected were recorded and deposited in a timely manner and intact.
- Based on the payee name, such as the advisor or unusual vendor names, and on larger amounts, we judgmentally selected 30 disbursements from check images and traced them to the invoices, payment orders, club or class minutes and the general ledger to determine if all were authorized, supported and recorded and if all were proper expenditures.

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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