



**East Aurora
Union Free School
District**

**High School Extra-Classroom
Activity Funds**

Report of Examination

Period Covered:

July 1, 2014 – June 13, 2016

2016M-163



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2017

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 East Aurora Union Free School District, entitled High School 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 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 East Aurora Union Free School District (District) is located in the Towns of Aurora, Colden and Elma in Erie County. The District is governed by an elected seven member Board of Education (Board), which 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 District's day-to-day management under the direction of the Board.

The District operates three schools with approximately 1,900 students and 270 employees. The District's budgeted appropriations for the 2014-15 fiscal year totaled \$31 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

The Board appoints a student activities treasurer (Central Treasurer) to oversee and account for high school extra-classroom activity (ECA) funds.¹ The Central Treasurer is responsible for depositing ECA funds and preparing disbursements for signature. ECA funds are raised by student classes and clubs to promote good business practices and the morale of students. Students raise and spend funds to finance ECAs. Donations and revenues from the sale of products or services provided by a class or club raise money to pay for student-approved disbursements. The District's high school ECA funds were maintained by 31 classes and clubs that deposited approximately \$184,000 in receipts and disbursed \$188,000 during the 2014-15 fiscal year. The bank statement cash balance of all high school ECA funds was over \$95,000 as of June 30, 2015.

Objective

The objective of our audit was to determine if the Board ensured that ECA funds were properly accounted for. Our audit addressed the following related question:

- Did the Board ensure that high school ECA funds were properly safeguarded?

Scope and Methodology

We examined the financial activities of high school ECA funds for the period July 1, 2014 through June 13, 2016. We extended our testing back to 2008-09 for Science Club ECA fundraising activities.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

¹ Although the District also operates ECA funds in the middle school, our audit focused on high school ECA funds.

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
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 findings.

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.

High School Extra-Classroom Activity Funds

An ECA is an organization within a school district whose activities are conducted by students. ECA funds are raised by student classes and clubs to promote good business practices and the morale of students and should provide a learning experience by allowing students to participate in the business procedures needed to safeguard the collection, deposit and disbursement of money. Donations and revenues raise money to pay for the student-approved disbursements.

The Regulations of the Commissioner of Education (Regulations) of the New York State Education Department (SED) require each school district's board to make rules and regulations for the safeguarding, accounting and auditing of all money received and derived from ECAs. The Regulations require the Board to appoint a Central Treasurer to account for ECA receipts and disbursements and a faculty auditor to oversee the management of ECA funds. SED also publishes a pamphlet which presents a plan for the management and accounting of these funds.²

The Board did not ensure that high school ECA funds were properly safeguarded. The Board did not adopt an adequate ECA policy to provide comprehensive guidance for District officials and students or appoint a faculty auditor to ensure that receipts were issued, disbursements were supported with adequate documentation and student ledgers were maintained and reconciled with the Central Treasurer's records. As a result, the ECA had apparently unaccounted-for cash totaling \$3,563. We identified disbursements totaling \$33,167 that were either approved for payment without adequate supporting documentation or did not evidence proper approvals prior to payment. Additionally, we noted four ECAs had no student records, as required, and three additional ECAs had only partial records, one of which reported receipts totaling \$400 less than the Central Treasurer's records.

Cash Receipts

Students are responsible for collecting money from ECA fundraisers and student events. The faculty advisor and student treasurer for a club prepare and sign a form entitled "Statement of Deposit with the Central Treasurer" (statement of deposit) that documents the transmittal of ECA funds to the Central Treasurer. The student treasurer records the collections in the club's ledger and then delivers the collections along with the statement of deposit to the Central

² *The Safeguarding, Accounting, and Auditing of Extra-classroom Activity Funds* is available at <http://www.p12.nysed.gov/mgtserv/accounting/docs/ExtraClassroomActivitiesJanuary2015.pdf>.

Treasurer who then records the collections in her ledger for the club. The Central Treasurer is responsible for safeguarding, accounting for and depositing the collections.

Fundraising — Because the Board does not have policies and procedures requiring a final accounting or profit and loss statement of each activity or event, we tested five fundraising activities in four clubs during 2014-15. No one reconciled or performed a profit and loss statement of final fundraising activity, which would have included comparing the items purchased and sold to the cash collected and recorded. We reviewed the total inventory purchased, projected potential sales and compared our projections to the accounting records, bank statements and images we obtained for certain deposited items from the bank (bank compositions). Other than the lack of a final accounting, our profit and loss analysis of four of the five fundraising activities demonstrated that deposited money was reasonable in comparison with items purchased.

However, one fundraising activity (selling individual candy bars) in the Science Club (Club) had deposits that were significantly less than the anticipated profit. The Club did not appear to report reasonable profits in comparison with the items purchased. During 2014-15, the Club purchased 3,750 candy bars with a suggested retail price of \$1 each but reported and deposited \$524³ for this activity in the Club's records. Of the \$524, one deposit included a check for \$115⁴ that was actually attributed to a payment for the Club's whale watch trip and appeared to have been substituted for candy bar sales in the deposit. Additionally, the Club had apparently incorrectly identified and deposited an additional \$1,778 as related to payments for a whale watch trip when it should have been reported as candy bar receipts. As a result, the actual total revenue for the candy bar fundraiser was \$2,187 which results in an apparent shortage of \$1,563 in 2014-15. We discussed the recordkeeping procedures with the faculty advisor and he stated that his records were not what they should have been. The faculty advisor indicated that he allows the students to keep the majority of the profits from each box of candy bars they sell and remit to him only the portion of profits that cover the initial cost to purchase the candy bars for the fundraiser. However, when we reviewed the money deposited, we found five checks indicating that payment to the Club was for the entire proceeds of the boxes they sold (including the profit); therefore, we question the faculty advisor's explanation.

³ This included \$473 that was recorded in the Club's records as deposits for a whale watch trip; however, we obtained deposited check images from the bank that indicated the money was for candy bar sales. As a result, we reduced the unaccounted-for total accordingly.

⁴ The check for this payment indicated the purpose was for a trip deposit and not for the sale of candy bars. Therefore, we reduced the amount of the revenue reported and increased the unaccounted-for total by \$115 in our analysis.

We extended our scope back to 2008-09 for the Club and found similar concerns with candy bar sales for the Club in each of the prior years the candy bar sale was held.⁵ We found that in three additional years, the fundraiser proceeds fell short of the estimated anticipated proceeds. Because of the Club's poor recordkeeping, District officials could not determine whether money from fundraisers was commingled with other receipts. However, we estimate there is a risk that an additional \$2,000 from fundraisers may be unaccounted-for from these prior periods. As a result, the apparent shortage in the Club's candy bar sales from 2008-09 through 2014-15 is \$3,563⁶ when comparing the anticipated profit to the total receipts reflected in the Club's records.

Duplicate Receipts — Issuing duplicate press-numbered cash receipts to document money received strengthens internal controls over cash receipts by providing evidence to account for the existence of cash and that the cash was deposited intact and in a timely manner.⁷ We reviewed 20 ECA deposits totaling \$85,429 from 12 clubs in 2014-15 and found the Central Treasurer issued duplicate press-numbered receipts to the clubs. However, the faculty advisors did not ensure that the clubs' student treasurers issued duplicate press-numbered receipts to the original payees for any of the money collected.

As a result, there was no documentation to indicate the source, date, amount and purpose of each collection from the original payees. Therefore, District officials could not demonstrate or verify that certain transactions were legitimate. For example, the Central Treasurer refunded \$630 to a person because a student apparently did not attend a trip. We could not confirm that this person originally paid for this student's trip and was therefore entitled to the refund.

Deposits — We also compared the dates of the statement of deposit forms with the dates of the bank deposits for 20 ECA deposits totaling \$85,429 to determine if the receipts were deposited timely and intact. Although all deposits were intact, four receipts were not deposited within a timely manner. For example, the collections recorded on a club's statement of deposit form dated January 24, 2015 were not deposited until February 17, 2015, or 24 days after the club remitted the collections to the Central Treasurer.

Cash Disbursements

The Central Treasurer is required to disburse money for ECA clubs only upon receiving payment orders signed by the student treasurers and faculty advisors of the respective clubs. Disbursements should

⁵ Candy bar sales were held every other year, beginning in our audit period in 2008-09.

⁶ \$1,563 + \$2,000 = \$3,563

⁷ Money collected must be deposited intact; that is, in the same order and form (i.e., cash or check) in which it was received.

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 purchases are made for appropriate purposes.

We reviewed 25 disbursements totaling \$108,968 made for 11 ECA clubs to determine if they were legitimate by reviewing the payment order forms for supporting documentation and approval. Twenty-four payment order forms were on file and signed by both the student treasurer/club member and faculty advisor. The remaining one disbursement for \$6,061 did not have a payment order form signed by a student treasurer or faculty advisor. Eight disbursements totaling \$27,106 had payment orders but did not have sufficient documentation attached. As a result, we could not verify and the Central Treasurer could not demonstrate that the disbursements were for legitimate purposes.

For example, one club made two disbursements totaling nearly \$11,000 for lodging and transportation but documentation was not attached to the payment order. Therefore, at the time of payment, officials could not confirm that the disbursements were legitimate but made the payments regardless. After our fieldwork concluded, the faculty advisor did provide us with appropriate supporting documentation to support these two disbursements.

We identified another disbursement where a faculty advisor was paid \$1,100 out of the ECA account by the Central Treasurer. The check indicated it was for dinner and theater tickets; however, there was no supporting documentation. Furthermore, the amount of the payment was paid directly to the advisor and for the exact balance of the remaining funds in the club's account. The faculty advisor indicated that she requested the \$1,100 balance in the club account to be transferred to her in October of 2014 for a school-affiliated trip the club had taken in July 2014. The faculty advisor stated that she did not have receipts to support the balance requested but that generally the check was for the reimbursement of out of pocket expenses incurred during the trip such as tips for tours and services and an extra excursion that became available while on the trip.

Student Records

Each ECA has a student treasurer and faculty advisor who are responsible for maintaining independent accounting records of receipts and disbursements. The student treasurers should maintain ledgers to account for all receipts and disbursements that include daily running cash balances. 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 faculty auditor should periodically compare the student treasurers'

ledgers to the Central Treasurer's ledger to verify agreement between the ledgers and investigate any discrepancies.

We reviewed the records for 10 ECA clubs that were active during 2014-15 and found that three clubs maintained adequate records. Four clubs did not have any student ledgers and three clubs had partial year records. For example, one club kept records from March 18, 2015 through June 8, 2015, and when we compared the ending balance with the Central Treasurer's records, we identified a difference of \$400.⁸ Because the District did not appoint a faculty auditor, a periodic comparison between the student treasurer's and Central Treasurer's records was not performed and this unaccounted-for cash difference was not identified earlier.

Policy and Oversight

The Board and District officials are responsible for protecting and providing oversight of ECA funds and goods purchased for subsequent fundraising sales. These responsibilities include adopting and implementing policies and procedures that describe the records that District personnel and students must maintain and the duties and procedures they must follow to safeguard money. Having a good system of internal controls helps minimize the risk that errors or irregularities could occur and remain undetected and uncorrected.

Although the Board established a policy in 2001 for the ECA fund, this policy has not been updated and is not adequate because it does not provide specific guidance for financial management and recordkeeping. Additionally, District officials did not establish written procedures to supplement the Board's policy or provide specific guidance for day-to-day ECA activities.

The District's policy does not provide comprehensive rules and regulations for establishing, conducting, operating and maintaining ECAs or for the safeguarding and accounting of all money received. For example, the ECA policy does not:

- Appoint a faculty auditor to provide oversight of the activity fund. Oversight activities would include monitoring the deposited fundraising proceeds with anticipated sales, reviewing the Central Treasurer's monthly bank reconciliations and ensuring sufficient documentation is attached to payment order forms.
- Require two sets of independent records (student treasurer's records and Central Treasurer's records) for each ECA to record cash receipts and cash disbursements. These records

⁸ Cash receipted on Central Treasurer's records but not receipted on student treasurer's records

could then be reconciled against each other to ensure the accuracy of the records and maximize the educational benefits to the student treasurers.

- Provide procedures detailing financial management guidance for student treasurers, such as preparing profit and loss statements and maintaining up-to-date activity ledgers and inventory control forms.
- Require ECA clubs to issue duplicate press-numbered receipts when club members collect money.
- Require original invoices or receipts to be attached to each payment request prior to payment.
- Provide detailed procedures for establishing and maintaining a club and the financial management and recordkeeping of activity funds.

In summary, the Board did not adequately safeguard high school ECA funds because it did not establish comprehensive guidelines and provide effective oversight. The lack of an adequate policy over ECA funds contributed to unaccounted-for ECA funds identified in this report.

Recommendations

The Central Treasurer should:

1. Deposit all cash receipts in a timely manner.
2. Prepare checks for signature only after receiving payment orders signed by student treasurers and faculty advisors that have supporting documentation attached to the payment orders, such as invoices, bills or receipts.

The faculty advisors should:

3. Ensure student treasurers maintain ledgers throughout the year and periodically compare cash balances to the Central Treasurer's records.
4. Ensure that student treasurers reconcile final fundraising activity and compare the items purchased and sold to the cash collected and recorded.
5. Ensure that club members issue duplicate receipts for any money collected.

The Board should:

6. Update and amend its ECA fund policy to provide specific guidance for the financial management and recordkeeping of the activity fund.
7. Ensure District officials establish written procedures to supplement the Board policy or provide specific guidance for performing day-to-day ECA activities.
8. Appoint a faculty auditor to ensure that the Central Treasurer, faculty advisors and student treasurers comply with the ECA policy.
9. Develop written policies and procedures requiring a final accounting or reconciliation of each fundraising activity and student event. Each final accounting and reconciliation should be reviewed and any significant differences resolved and reported to the appropriate level of management. A review of each final accounting and reconciliation should also be incorporated into the annual internal audit.
10. Investigate all unaccounted-for high school ECA funds and questionable disbursements identified in this report and take appropriate action to recover any money determined to be due to the high school ECA clubs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

EAST AURORA UNION FREE SCHOOL DISTRICT
Brian D. Russ
Superintendent of Schools

February 6, 2017

Jeffrey D. Mazula, Chief Examiner
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula,

The East Aurora Union Free School District accepts the results of the State Comptroller's audit for our District.

If you require additional information, please contact me.

Sincerely,

Brian D. Russ
Superintendent of Schools

letters\audstate\jfc

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed SED guidance and the District's policy for safeguarding, auditing and accounting for ECA funds.
- We judgmentally selected and reviewed 10 ECA clubs/classes that were active during 2014-15 to determine if student treasurers maintained ledgers that had receipts, disbursements and running cash balances that agreed with the Central Treasurer's ledger. ECA clubs were selected based on risk related to the amount and type of annual activity.
- We judgmentally selected and reviewed five fundraisers from four clubs during 2014-15 to determine if profit and loss statements were prepared. We reviewed the total inventory purchased and used supporting invoices and price lists to project potential sales. We compared our projections to the accounting records and bank statements to determine if deposits were reasonable. We extended our scope period back to 2008-09 for the Science Club ECA's fundraising activities. Fundraisers were selected based on risk related to the amount and type of fundraising held in certain ECA clubs.
- We obtained 10 bank compositions of deposit to determine if the deposits were consistent with the clubs' and Central Treasurer's ledgers.
- We projected the receipts for five fundraising events using invoices showing the number of participants or cost. We compared the projected receipts with the accounting records and bank statements to determine whether the receipts recorded and deposited were reasonable. We inquired with the Central Treasurer to determine if student treasurers, faculty advisors or anyone else prepared reconciliations.
- We selected 20 deposits totaling \$85,429 from 12 clubs in 2014-15 to determine if the Central Treasurer provided duplicate press-numbered receipts to student treasurers or faculty advisors and if faculty advisors ensured that clubs' student treasurers issued duplicate press-numbered receipts to the original payees. We randomly selected 20 duplicate receipts from 12 clubs and compared them to deposits to determine if the cash receipts were deposited timely and intact. We used a random number generation process to perform these sample selections.
- We judgmentally selected and reviewed 25 disbursements, based on materiality and apparent purpose, made for 11 ECA clubs to determine if they had payment order forms and supporting documentation (such as an invoice, bill or receipt) and were properly approved by the student treasurers and faculty advisors.

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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