

Brookhaven-Comsewogue Union Free School District

Extra-Classroom Activity Funds

JUNE 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Extra-Classroom Activity Funds 2**
 - How Should a District Establish an Adequate Accounting System for ECA Funds? 2

 - The Board-Adopted Policies Did Not Provide Specific Guidelines For ECA Club Members 3

 - The Board Did Not Properly Appoint a Faculty Auditor, Ensure the Duties of the Faculty Auditor Were Performed, and Did Not Appoint Chief Faculty Counselors 3

 - The Board Did Not Always Establish ECA Clubs or Ensure Adequate Records Were Maintained 4

 - Documentation to Support Collections and Disbursements Were Not Always Complete 5

 - Deposits Were Not Always Timely 6

 - What Do We Recommend? 7

- Appendix A – Response From District Officials 9**

- Appendix B – OSC Comment on the District’s Response. 10**

- Appendix C – Audit Methodology and Standards 11**

- Appendix D – Resources and Services. 13**

Report Highlights

Brookhaven-Comsewogue Union Free School District

Audit Objective

Determine whether Brookhaven-Comsewogue Union Free School District (District) officials established an adequate accounting system for extra-classroom activity (ECA) funds.

Key Findings

Unapproved ECA clubs were operating in the District and District officials did not establish an adequate accounting system for ECA funds. As a result, District officials cannot ensure that collections are properly collected, submitted and deposited, and disbursements are for valid purposes.

The Board did not:

- Adopt a comprehensive ECA policy or provide appropriate oversight of ECA funds. As a result, 72 of 90 transactions tested totaling \$321,554 are not properly accounted for by the ECA club.
- Properly appoint faculty auditors and ensure their duties are carried out or establish nine activity clubs as ECA clubs.
- Ensure that each club maintained a separate set of records from those of the central treasurers.

Officials did not:

- Ensure collections and disbursements were always supported or that nine of the 38 deposits tested totaling \$12,635 were deposited timely.

Key Recommendations

- Appoint a faculty auditor at each location whose duties are distinct and separate from the duties of the other officers.
- Ensure that a separate and independent set of records of receipts and disbursements be maintained by the student activity treasurer for each club.

District officials agreed with our recommendations and indicated they have initiated corrective action. Appendix B includes our comment on an issue raised in the District's response.

Background

The District serves the Town of Brookhaven in Suffolk County. The seven-member Board of Education (Board) is responsible for financial and educational affairs.

ECA funds are operated by and for the students. Students raise and spend funds to promote the general welfare, education and morale of all students and finance extracurricular activities.

The Superintendent of Schools (Superintendent) is the chief executive officer and responsible, along with other administrative staff, for day-to-day management under the Board's direction.

The current Superintendent was appointed in September 2019 after serving the last nine years as Assistant Superintendent and Deputy Superintendent.

Quick Facts

Enrolled Students	3,718
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Extra-Classroom Activity

Clubs With Transactions	51
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Audit Period

Collections	\$598,006
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Disbursements	\$633,417
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Audit Period

July 1, 2018 – June 30, 2020

Extra-Classroom Activity Funds

Student activity clubs raise ECA funds to promote the general welfare, education and morale of students and finance extracurricular activities. Such activities provide students with the opportunity to learn good business procedures by handling funds and operating a successful business.

The District has 59 clubs, 39 in the high school, 13 in the middle school and seven in the two elementary schools in 2019-20. Fifty-one of these clubs had financial transactions during the audit period.

How Should a District Establish an Adequate Accounting System for ECA Funds?

The Regulations of the New York State Commissioner of Education (Regulations) recommend that school districts adopt policies and procedures to safeguard ECA funds. The Regulations advise that the following procedures be followed in establishing an adequate accounting system for ECA funds:

- In accordance with Regulation, Section 172.3, the board of education (board) should adopt, and district officials should implement policies and procedures that at least require the following: the method to be followed in establishing a ECA club, the records of receipts and expenditures to be maintained, the reports to be made at least quarterly to the board and the method of disposing of funds of defunct ECA clubs.

The policies and procedures should also ensure that the authority to expend money is kept distinct and separate from the custody of those funds and require an independent and impartial audit of district records.

- The board should appoint a chief faculty counselor for each building, usually the building principal, to coordinate the financial planning of all projects of various student ECA clubs in their building and consult with faculty advisors.
- The board should appoint a faculty auditor whose duties are distinct and separate from those of other officers. Building principals are prohibited from serving as the auditor because they should serve as chief faculty counselors and would therefore have general supervision of the entire system and be responsible for the decisions of faculty advisors. The faculty auditor should request the ledgers maintained by each activity club at least twice a year on a rotating basis to compare to the balance on the central treasurers' report.
- The chief faculty counselor should appoint a faculty advisor to each club to guide and advise the student officers in planning ECA activities and planning financial budgets, guide the student treasurer in proper procedures for receiving money raised and recording entries in the account ledger, and supervise expenditures by insuring funds are available before approving each proposed purchase and sign all pay orders drawn on the central treasurer for disbursement of funds.

... [P]olicies and procedures should also ensure that the authority to expend money is kept distinct and separate from the custody of those funds and require an independent and impartial audit of district records.

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- Two separate and independent sets of records of receipts and disbursements should be maintained, one by the central treasurer and one by each clubs' student treasurer, under the guidance of the faculty advisor.

The Board-Adopted Policies Did Not Provide Specific Guidelines For ECA Club Members

The Board adopted two policies (ECA fund, and petty cash funds and cash in school buildings) to address ECA funds. These policies require that funds be promptly deposited and state that ECA funds are to be kept according to standards of good financial management, are subject to audit and the building principal along with the Superintendent are required to set up procedures for receipt and payment from all ECA funds. However, the two policies do not provide specific guidelines for ECA club members to follow, such as guidance on the records to be maintained by each club, the signatures required on deposit and check request forms or the required supporting documentation for transfers and disbursements. As a result, the Board did not implement adequate controls over ECA fund operations.

The Board Did Not Properly Appoint a Faculty Auditor, Ensure the Duties of the Faculty Auditor Were Performed, and Did Not Appoint Chief Faculty Counselors

Although the Board appointed the four building principals (principals) to serve as faculty auditors for each of their respective buildings, it did not ensure that the duties of a faculty auditor were performed. As a result, neither the principals nor any other District employee actually performed the role of the faculty auditor, such as requesting the ledgers maintained by student treasurers to compare to the balances on the central treasurers' reports in order to ensure the ledgers and reports agreed, reviewing deposits and supporting documentation for collections, and ensuring club disbursements are approved and for appropriate club purposes.

The Board also did not appoint chief faculty counselors, as recommended. However, principals performed this role but their duties associated with their appointment to faculty auditors conflict with the chief faculty counselor responsibilities. Therefore, the principals should not be responsible for or conducting the responsibilities of the faculty auditor and the chief faculty counselor.

There is a separate bank account for each of the four school buildings for the deposit and disbursement of ECA funds. The central treasurer and principal of each building are the authorized signers for each bank account. The central treasurers provided monthly bank reconciliations to the District Treasurer who

... [T]he Board did not implement adequate controls over ECA fund operations.

prepared quarterly reports to the Board. However, because an independent audit comparing the central treasurers' records and the student treasurers' records was not performed, it increased the risk of errors or fraud occurring and not being detected.

The Board Did Not Always Establish ECA Clubs or Ensure Adequate Records Were Maintained

At two of the four elementary schools (School A and School B) the Board did not establish nine of the 16 student activity clubs as ECA clubs in 2018-19 or 2019-20. Although the nine clubs operated as ECA clubs with cash deposits totaling \$87,429 and cash disbursements totaling \$79,023 during the audit period, none of them had an appointed faculty advisor or student treasurer.

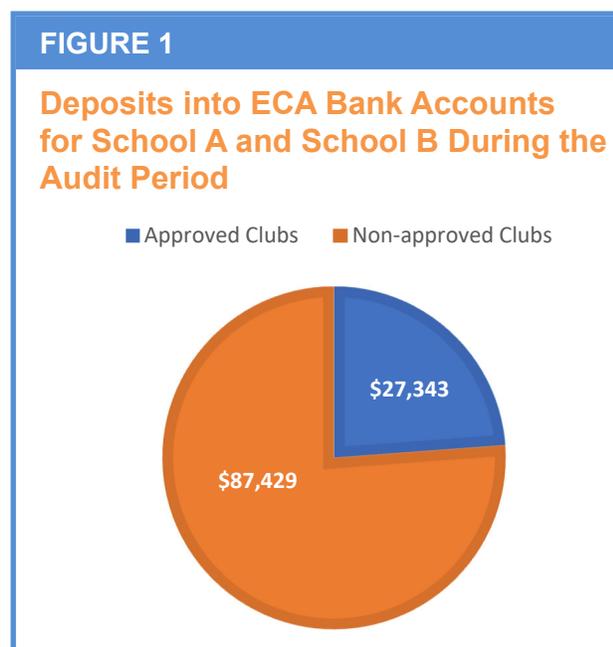
Additionally, the District Treasurer's quarterly reports to the Board and the audited financial statements did not report deposits, disbursements and balances for each individual ECA club for either School A or School B. Instead, the combined net totals of all activities from each of these schools were reported. Included in these totals were the nine student activity clubs not approved as ECA clubs. Therefore, these reports were inadequate for the purpose of monitoring ECA clubs' financial activities.

The funds for these nine unapproved ECA clubs were deposited and withdrawn from the respective school's ECA bank account. The central treasurers for School A and School B processed deposits, issued checks and recorded transactions for these activities. We found that 76 percent of funds deposited by these central treasurers were for activities that were unapproved as ECA clubs (Figure 1).

The ledger used for our testing (received from the School A central treasurer) did not reconcile to the financial statements. We identified various bookkeeping errors in the central treasurer's ledger when recording the rollover of funds from one year to the next and transferring funds between clubs.

When we inquired about these errors with the central treasurer and the District Treasurer, we were provided

... [T]he Board did not establish nine student activity clubs as ECA clubs in 2018-19 or 2019-20.



with an updated ledger. The School A central treasurer told us that the updated ledger (provided to us by the District Treasurer) was based upon the District Treasurer assisting her to provide a more accurate ledger. We compared the updated ledger to the ledger provided by the central treasurer and identified transactions recorded in one that were not recorded in the other ledger. Based upon our review, the discrepancies between the ledger provided by the central treasurer and the updated ledger represented various bookkeeping errors made by the central treasurer of School A. When records are not complete and accurate it increases the risk of errors and theft without detection. It also compromises the Board's ability to monitor the financial operations of the ECA clubs.

Documentation to Support Collections and Disbursements Were Not Always Complete

During the audit period, 51 ECA clubs recorded collections totaling \$598,006 and disbursements totaling \$633,417. ECA clubs used a school deposit form to document the collection activity including the date funds were collected, the date submitted to the central treasurer and amount deposited by the central treasurer. When the ECA clubs request funds be disbursed, a check request form is used, which documents the payee, date of request and the amount and reason for the disbursement. Both forms are to be signed by the central treasurer, the student treasurer and faculty advisor from the ECA clubs.

We reviewed collections and disbursements from eight clubs each year (two from each of the four schools) during 2018-19 and 2019-20. We traced 43 collections deposited totaling \$180,073 (including five transactions totaling \$25,176) to record the transfer of funds from one club to another club in the central treasurers' records (if available), school deposit forms and the bank receipts to determine whether the amounts collected were deposited intact and were adequately supported.

In addition, we traced 47 disbursements totaling \$188,858 (including one \$350 transfer) from the central treasurers' records to the check request form to ensure that all these disbursements were adequately supported and for a valid purpose. Of the 90 transactions we tested, the clubs did not maintain their own records for 72 transactions (or 80 percent).

We found the following:

- The faculty advisors for seven of nine clubs tested (only eight were tested both years) were not able to provide club ledgers for deposits and disbursements. The total deposits we reviewed from the seven clubs were \$153,566 and the total disbursements were \$152,105. Additionally, although one faculty advisor provided a club ledger for deposits, she did not provide a ledger for the \$15,833 in club disbursements. When clubs do not maintain

Of the 90 transactions we tested, the clubs did not maintain their own records for 72 transactions (or 80 percent).

records, it does not allow a faculty auditor to compare the balance as shown on the central treasurer's report with the balance recorded in the ECA club ledger.

- Three transfers to the student counsel fund from ECA clubs at School A totaling \$4,765 had no form filled out with a detailed description to support the transfers. Additionally, three disbursements totaling \$3,650 and a transfer from an ECA club for \$350 had no supporting documentation. Based on the description of the transactions in the central treasurer's ledger, the \$350 transfer was to another ECA club and the disbursements were all for valid purposes. However, when the purpose of the disbursement is not documented, officials have little assurance that disbursements are for a valid ECA purposes.
- Central treasurers did not sign 11 of 38 school deposit forms reviewed totaling \$10,843 indicating the amount of collections deposited. Although we confirmed that all these funds were deposited in the bank, when the central treasurer does not sign to document funds received, there can be a discrepancy between the amount the ECA club intended to deposit, and the amount actually recorded and deposited by the central treasurer.
- Twenty-five of the 46 check request forms reviewed totaling \$41,398 did not indicate the date the activity club was requesting the payment. Transaction dates are necessary to make transactions easily identifiable and ensure timely payment is made.
- Faculty advisors did not sign 10 of the 46 check request forms reviewed totaling \$5,119 to show approval of the payment. Further, neither the central treasurer nor the building principal signed three of these 10 forms totaling \$1,469. Although all disbursements we reviewed were for a valid purpose, when the check request forms are not signed there is no indication that the support was reviewed, that it was determined to be a valid expenditure and that the amount requested is accurate.

Because the Board did not appoint a faculty auditor to request records from ECA clubs and the central treasurers, including supporting documentation for collections and disbursements, there were instances where the records were inadequate or not maintained. Additionally, there were transactions that were unsupported. As a result, District officials cannot ensure that all collections are properly collected, submitted and deposited, and all disbursements are for valid purposes.

Deposits Were Not Always Timely

The District's policy requires that all ECA funds be deposited before the close of school each week. We tested 38 deposits (excluding five electronic transfers) to determine whether they were deposited in a timely manner.

District officials cannot ensure that all collections are properly collected, submitted and deposited, and all disbursements are for valid purposes.

Of the 38 deposits tested, nine totaling \$12,365 (or 8 percent) were not deposited the same week they were collected. For example, for one club that collected \$3,100 for a field trip, the deposit form showed that the funds were collected on February 12, 2020 but the bank receipt showed the funds were deposited on March 4, 2020, three weeks later. When we inquired why the deposits were not timely, we were told that not all four of the central treasurers were aware of the District policy which requires collections to be deposited by the close of each school week. Additionally, one central treasurer told us that there were delays with the deposits because her workload did not always allow her to go to the bank promptly. When ECA funds are not deposited timely, there is an increased risk of loss or theft of the collections.

What Do We Recommend?

The Board should:

1. Adopt a detailed policy to ensure all ECA funds be handled in accordance with the Regulations for the safeguarding, accounting and auditing of ECA funds and that the principals and Superintendent prepare detailed written procedures for the receipt and payment from ECA funds as required by District policy.
2. Appoint a faculty auditor whose duties are distinct and separate from the duties of the other ECA officers. Ensure that the faculty auditor adequately fulfills their role by reviewing ECA student treasurer records and comparing them to the central treasurers' records and reports, reviewing the timeliness of deposits for ECA collections and that all disbursements are approved and for ECA club purposes.
3. Appoint chief faculty counselors, ensuring a conflict of responsibilities does not exist.
4. Ensure all active clubs are properly approved.

District officials should:

5. Ensure that the ECA fund records and the bank account only include funds from ECA clubs.
6. Ensure that the clubs from School A and School B report deposits, disbursements and balances for each individual ECA club.
7. Ensure that complete ledgers are maintained by each ECA Club.

The central treasurers and faculty advisors should:

8. Ensure that all funds are deposited timely as required by District policy.
9. Ensure all deposit and check request forms are filled out completely and signed by the responsible parties.
10. Ensure that documentation for all deposits and disbursements are properly supported by the respective ECA Club.

Appendix A: Response From District Officials



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Superintendent of Schools

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Jennifer J. Quinn, Ed.D.
Superintendent of Schools

May 16, 2022

The Brookhaven-Comsewogue Union Free School District is in receipt of the Draft Extra-Classroom Activity Funds Report of Examination, 2021M-181. Upon receipt of this draft, we began working and will continue to work with our internal and external audit firms to address all the findings and recommendations.

The District's Board of Education and Administration would like to thank the audit team that worked with the District during the lengthy audit process which began prior to the Covid-19 pandemic. We appreciate all the time and hard work the team put into this audit. The Board takes seriously its role in ensuring all funds have been properly maintained. The District is gratified that the audit team discovered there was no evidence of impropriety and that all funds were utilized for a valid purpose. The District will use this opportunity to strengthen existing controls.

See
Note 1
Page 10

The District has already taken actions to address the findings and recommendations. Although the duties and responsibilities of a chief faculty counselor have been carried out within the District, the Board has now appointed separate individuals as faculty auditors and chief faculty counselors to facilitate the safeguarding and accounting of Extra-Classroom Activity (ECA) funds. The Board is also in the process of updating its policies related to the ECA funds, specifically, Policy 1335, Policy 5520, and Policy 5530.

The District has also eliminated the clubs at the two elementary schools in the District and is closing the associated bank accounts. The remaining bank accounts for the High School and the Middle School only will include funds from ECA funds. The facility auditor will ensure that all club ledgers are maintained by student treasurers. The Board has and will continue to approve all student clubs.

Employees involved in the EAF process were previously trained by outside auditing firms and will continue to be required to undergo extensive training each year to ensure all transactions follow applicable law and District policy and procedures.

Thank you,

Jennifer J. Quinn, Ed.D.
Superintendent of Schools



Accredited by the Middle States Association of Colleges and Secondary Schools
Commissions on Elementary and Secondary Schools

Appendix B: OSC Comment on the District's Response

Note 1

The scope of this audit was limited to the review of a sample of transactions for the ECA clubs selected for our audit testing. Therefore, we did not determine that all ECA funds were used for a valid purpose.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and ECA officers to gain an understanding of procedures followed and the internal controls over ECA clubs operations.
- We reviewed the District policies that address ECA and the Regulations as set forth by the Commissioner of Education for the treatment of ECA funds from SED pamphlet number 2.
- We reviewed minutes of the Board's meetings to determine the ECA officers appointed by the Board.
- We requested and reviewed the annual audited financial statements for ECA funds for 2018-19 and 2019-20. We requested central treasurers' ledgers, activity club ledgers, ECA deposit forms, ECA check request forms with supporting documents, bank deposit tickets and bank receipts.
- To select ECA clubs for our audit testing, for each year, we selected eight clubs (two ECA clubs from each of the four schools) with the highest dollar amount of total transactions, which is deposits and disbursements, as reported in the 2018-19 audited financial statements. Because the audited financial statements were not yet available for 2019-20, we tested the selected clubs for both 2018-19 and 2019-20. However, one club which was selected from the high school did not activity in 2019, so we selected another club with the highest dollar amount of total transactions for 2019-20 as listed in the central treasurers' ledger. Therefore, we selected nine clubs in total. (We did not select for our audit testing of cash receipts and disbursements any activity that the central treasurer included in their records that were unapproved ECA clubs.
- For the nine selected clubs, we tested the three largest deposits and three largest disbursements in each year reviewed. If less than three deposits or disbursements were available in a year, we reviewed all disbursements or deposits that year. We tested 25 percent of the total deposit amounts and 30 percent of the total disbursement amounts for all ECA clubs.
- For the selected deposits, we traced transactions from the central treasurer's records to the club ledger, if available, the school deposit form and the bank statement to determine whether supporting documentation was adequate and deposits were timely and complete.
- For the selected disbursements, we traced transactions from the central treasurer's records to the club ledger, if available, and check request form and supporting documentation to determine whether they were adequately supported and for a valid purpose.

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- Because we received two ledgers from School A, one from the central treasurer and an updated ledger from the District Treasurer, we used the central treasurer's detailed ledger to quantify all deposits and disbursements reported.

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.

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.

The Board has the responsibility to initiate corrective action. 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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of 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 CAP should be posted to the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

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