



# Middle Country Central School District

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## Extra-Classroom Activity Funds

2022M-160 | March 2023

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# Report Highlights

## Middle Country Central School District

### Audit Objective

Determine whether Middle Country Central School District (District) officials provided proper oversight of extra-classroom activity (ECA) funds.

### Key Findings

The Board of Education (Board) and District officials did not provide proper oversight of the ECA funds. When complete records are not maintained, it increases the risk of errors and/or theft without detection. It also compromises the Board's ability to monitor the financial operations of the ECA clubs.

The Board did not:

- Properly appoint the central treasurer and faculty auditor and did not appoint a faculty counselor.
- Ensure each club maintained a separate set of records from those of the central treasurer.

District officials did not ensure:

- 15 of 39 activity club collections totaling \$72,998 and 20 of 39 cash disbursements totaling \$44,395 were recorded by the ECA club.
- 16 deposits totaling \$23,680 were deposited timely.

### Key Recommendations

- Appoint a faculty auditor whose duties are distinct and separate from the duties of the other ECA officers.
- Maintain complete and accurate ECA ledgers.
- Ensure that all funds are deposited by the close of each school week, as required by District policy.

District officials agreed with our recommendations and indicated that they have already implemented most of them.

### Background

The District serves the Town of Brookhaven in Suffolk County. The nine-member 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 the District's day-to-day management under the Board's direction.

#### Quick Facts

##### Audit Period ECA Funds

Collections	\$603,791
Collections Reviewed	\$277,906
Disbursements	\$528,915
Disbursements Reviewed	\$240,138
Active Clubs	77

### Audit Period

July 1, 2020 – December 31, 2021

# Extra-Classroom Activity Funds

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The District had 77 clubs, 53 in the two high schools and 24 in the two middle schools during the audit period. Twenty of the clubs had no collections while 12 of the clubs had no disbursements. For the audit period, the ECA clubs reported collections of \$603,791 and disbursements of \$528,915.

## How Should School District Officials Manage ECA Funds?

ECA funds are generated by organizations within a school district whose activities are conducted by students, such as clubs, teams and student council (club). ECA funds are derived from several sources, such as admissions to paid events, sales and donations. Clubs also hold fundraisers to raise money for school trips and to support charities. The activities provide learning experiences to students in the business procedures needed to account for and safeguard ECA funds. These funds should be managed by students under the direct supervision of a faculty advisor. Money should be collected and spent at the direction of students within that club.

In addition to adopting policies and procedures to safeguard ECA funds, the Regulations advise that the following procedures be adhered to in establishing an adequate accounting system for ECA funds:

- The school board should appoint a chief faculty counselor for each building, usually the building principal, to coordinate the financial planning of all projects of various ECA clubs in the building and appoint and consult with faculty advisors for each club.
- The board should appoint a faculty auditor whose duties are distinct and separate from those of other officers. Building principals should not serve 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 balances on the central treasurers' report.
- The board shall appoint a central treasurer to have custody of all funds. All disbursements shall be by means of a prenumbered check form signed by the central treasurer upon receipt of a payment order signed by the student treasurer and faculty advisor. The central treasurer shall sign a receipt for all funds placed in his custody.
- Two separate and independent sets of records of collections 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 faculty advisor shall guide the student treasurer in posting his account ledger and from time to time shall check the balancing of the student activity

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ECA funds are derived from several sources, such as admissions to paid events, sales and donations.

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treasurer's accounts and completeness of their supporting evidence. The faculty advisor also assists in the preparation of profit and loss statements for each fundraising activity.

The District's policy references the Regulations of the New York State Commissioner of Education (Regulations) for the establishment, conduct, operation and maintenance of ECA records. There are separate bank accounts for each of the four school buildings for the deposit and disbursement of ECA funds. Except for one school which had their central treasurer as the sole authorized signer of checks, the three central treasurers and principals of each of the other buildings are the authorized signers for each bank account. The central treasurers provided monthly bank reconciliations to the District Treasurer who prepared reports to the Board.

### **The Board Did Not Properly Appoint All ECA Officers or Ensure the Duties of the Faculty Auditor Were Performed**

The Board did not appropriately appoint ECA officers as required by the Regulations. We found:

- The four school principals (principals) were appointed to serve as both central treasurers and faculty auditors for each of their respective buildings. However, the principals did not perform the duties of either the central treasurer or faculty auditor in any of the four buildings. The responsibilities of the central treasurers were instead performed by other staff at each of the four schools.
- Neither the principals nor any other District employee performed the role of the faculty auditor in any of the buildings, which includes requesting the ledgers maintained by student treasurers to compare to the balances on the central treasurers' reports to ensure the ledgers and reports agree.
- Chief faculty counselors were not appointed. However, the building principals performed this role in each school.

District officials told us that these appointments were done the same way for many years and they were not aware that they were not correct. When the Board does not properly appoint individuals to key positions to oversee the clubs and ensure an audit of the student and central treasurer's records are performed, it creates a risk that clubs will not function properly and funds collected and disbursed will not be properly accounted for and reported, and for the possibility of theft or fraud to occur.

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## The Board Did Not Always Ensure Adequate Records Were Maintained

During the audit period, the 77 ECA clubs recorded collections totaling \$603,791 and disbursements totaling \$528,915. 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 club.

We reviewed eight clubs with the highest dollar amount of deposits and eight clubs with the highest dollar amount of disbursements during our audit period, which included 10 clubs in total. We reviewed 39 deposits totaling \$277,906 and 39 cash disbursements totaling \$240,138 to determine if the transactions were recorded by the central treasurer and by the ECA clubs for the 10 clubs we selected. We also requested profit and loss statements from the 10 clubs. We found the following:

- Profit and loss statements were not prepared for any of the 10 clubs we reviewed.
- Fifteen of the 39 deposits tested totaling \$72,998 were not recorded by the club.
- Twenty of the 39 cash disbursements tested totaling \$44,395 were not recorded by the club.
- Five of the 10 clubs reviewed did not maintain a general ledger during the audit period to record collections and disbursements. These five clubs had total collections of \$19,082 and total cash disbursements totaling \$15,765. Collections of \$8,262 and disbursements of \$14,809 are included in our test of deposits and cash disbursements that were not recorded, respectively.
- One club maintained a general ledger with transactions up to May 27, 2021. No transactions were recorded from that date until September 22, 2021, when the club was closed out. During this period, the central treasurer recorded collections totaling \$4,590 and cash disbursements totaling \$36,522. Collections of \$4,325 and cash disbursements of \$29,586 are included in our test of deposits and cash disbursements that were not recorded, respectively.
- One club did not maintain a ledger until September 2021. There was no ledger maintained from July 2020 through August 2021. During this

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...77 ECA clubs recorded collections totaling \$603,791 and disbursements totaling \$528,915.

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period, the central treasurer recorded collections totaling \$2,346 and cash disbursements totaling \$1,289. Collections of \$1,920 were documented in our test of deposits that were not recorded.

When complete records are not maintained, it increases the risk of errors and/or theft without detection. It also compromises the Board's ability to monitor the financial operations of the ECA clubs.

### **Deposits Were Not Always Timely and Intact**

Collections should be deposited as soon as possible and intact, that is in the same amount and form as received. The District's policy requires that all collections are to be held in the vault in the main office of each District school building. Additionally, collections by each club must be deposited in the bank prior to the close of school each week in which they were received. In two schools, collections are brought to their building central treasurer who makes the deposits at the bank. In the other two schools, collections are brought to a designated employee (banker) who makes the deposits at the bank and provides the central treasurer with bank deposit slips. If the central treasurers and bankers are not available to receive the funds from the clubs, funds are left in the school safe. The District's practices differ in each school building. One of the four schools has a log to record when deposits are placed in the school safe. However, the other three schools do not have a similar practice.

We tested 39 deposits totaling \$277,906 from the four schools to determine whether funds were deposited by the end of the week as required by District policy. Sixteen of the 39 deposits (or 41 percent), tested from seven of the eight clubs totaling \$23,680 were not deposited the same week they were collected. Additionally, four of the remaining 23 deposits, totaling \$4,365, from one of the seven clubs, were either not deposited intact or we could not determine if they were intact. Some examples included:

- One club collected \$3,400 for charitable donations at a fundraiser held in June 2019. However, the funds were not counted and recorded by the central treasurer and deposited until April 6, 2021, almost two years after the event. When we inquired with ECA club officials at the school, we were told that the funds were placed in the school safe, and the banker was not aware the funds were left there because they were not placed in an easily seen location. Based on our observation, the safe is a large room consisting of multiple metal shelves used to store items such as metal lock boxes used by ECA clubs for funds collected, as well as other items needing to be stored securely. The funds were only found after a directive from the Business Office was given to the principals to go through their respective school safes.

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When complete records are not maintained, it increases the risk of errors and/or theft without detection.

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Had there been a process in place such as a log, there would have been a record of funds left in the safe, which then could have been compared to the District's bank statement to ensure the funds were deposited. Because District officials did not require that all ECA clubs maintain a log to indicate that funds were placed in the safe, the funds were misplaced for almost two years.

- Another club's collections from sales of candy and other products totaling \$795 were collected the week of May 16th through May 20, 2021. The central treasurer issued a receipt to the club on June 6, 2021 when the collections were remitted to the central treasurer, and the funds were deposited in the bank on June 8, 2021, or 19 days after they were required to be deposited in the bank.
- Additionally, one club did not always deposit collections intact. We reviewed four deposits totaling \$4,365 from vending machine sales and from weekly pizza sales during the audit period. The vending machine and pizza sales are sometimes comingled. When depositing vending machine sales, the club does not document whether the collections were cash or coins. Therefore, we could not determine if the funds are deposited intact. Additionally, instead of remitting all funds collected from pizza sales to the central treasurer, the club advisors told us that a portion of the pizza sale collections, about \$100, is left in the safe to pay for the following week's pizza. As a result, there is no assurance that all vending machine and pizza sales are deposited in the bank.

When there is no log of collections that are placed in the safe, the District cannot ensure that all funds left in the safe are deposited timely and intact. Additionally, when funds are not deposited promptly and intact there is an increased risk of loss or theft of the collections.

### **Why Are Bank Reconciliations And Stale-Dated Check Procedures Important?**

Reconciling bank account balances with the accounting records is an essential control activity that allows school district officials to determine whether all collection and disbursement transactions are captured and correctly recorded in a timely manner. Monthly reconciliations provide a way for school district officials to identify, correct and document differences between the school district's records and bank transactions. During the reconciliation process, outstanding checks should be researched, investigated and if necessary, voided and reissued.

A bank is under no obligation to cash a check which is presented more than six months after the issue date, but it may be cashed if taken in good faith. However, a stop payment order can be requested by the school district if the check has not already been processed by the recipient. When a check is determined by the



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school district to be outdated, it should be recorded in their accounting records and a stop payment request should be made to cancel the check payment before being processed.

### **The Board Did Not Establish Procedures to Write-Off Stale-Dated Checks**

The central treasurers issue checks for expenditures incurred by clubs throughout the school year. They also perform the monthly bank reconciliation which is reviewed by the District Treasurer. When a check is written and not cashed, it appears on the central treasurer's bank reconciliation as an outstanding check. When a check has been outstanding for more than six months, the District will identify the check as stale, and the central treasurer will record a journal entry to void the check in their accounting records. The entry increases the ECA club's cash balance by the amount of the voided check. However, the central treasurer does not call the bank and request a stop payment on the outstanding check.

We reviewed the two schools that use an electronic accounting system and performed journal entries related to voiding stale-dated ECA checks. We reviewed all 51 journal entries with a net total of \$12,379 recorded during the audit period. These entries were made to record checks the District received that bounced, checks issued that were not cashed by the payee and deposit slip charges from the bank. Additionally, they included the reversal of journal entries for checks that had not been cashed because the payees subsequently cashed the checks. Forty-two of the 51 journal entries were recorded based on the District's stale-dated check practices. Thirty-six of the 42 journal entries, for 58 checks totaling \$9,383, were voided in the accounting software and increased the ECA clubs' account balances because the payee had not cashed the check. Because the central treasurers did not call the bank to issue a stop payment on the voided checks, six checks totaling \$2,343 were then cashed by the payees. The central treasurer subsequently recorded six journal entries in the accounting software to reverse the initial entry for the stale checks and reduce the ECA clubs' account balances.

The remaining nine journal entries included various discrepancies such as lost checks and bank errors as follows:

- In June 2021, an ECA club purchased tumblers for students totaling \$5,956. The check was issued and cashed by the vendor in June 2021. The vendor erroneously notified the District in September 2021 that the payment had not been received. Due to an oversight, the central treasurer did not realize that the first check had already been cashed and she issued a second check, without notifying the bank that a stop payment should be put on the first check. The vendor also cashed the second check. If the District's practices included notifying the bank to put a stop payment on the first check, the

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...[T]he central treasurer does not call the bank and request a stop payment on the outstanding check.

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bank would have informed the central treasurer that the first check had already been cashed. District officials detected this error and requested the overpayment from the vendor. The vendor returned the overpayment in March 2022.

- In December 2020, a check for \$851 was issued and cashed by the payee. In November 2021, the bank reduced the District's account again for the same check number and amount. When performing the bank reconciliation, the central treasurer assumed this item was a stale-dated check which was later cashed, and a journal entry was made to reduce the club balance. When we brought this the attention of District officials, they contacted the bank, and the District's bank account was credited for the amount because the bank erroneously reduced the District's account.

Because the District does not have a policy or procedures to ensure the bank is notified and a stop payment is requested when a check is voided, there is an increased risk that the payee may cash a check the District has voided and be paid twice without being detected or other errors may be made without being corrected. Additionally, because a journal entry is recorded to add the voided check back to the club balance, there is an increased risk that the bank account can be overdrawn if the check is subsequently cashed.

## **What Do We Recommend?**

The Board should:

1. Appoint chief faculty counselors, ensuring a conflict of responsibilities does not exist with other ECA-appointed positions.
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. Ensure that the individuals performing the duties of central treasurer are appointed to the position.
4. Adopt a policy regarding the voiding of checks deemed to be stale, including requesting a stop payment from the bank.
5. Ensure that a log is required in all school buildings to document when funds are placed in the school vault.
6. Ensure that complete ledgers are maintained by each ECA club.

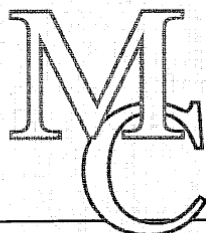
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District officials should ensure that:

7. Profit and loss statements are prepared for each fundraising activity.
8. Ensure that all collections are deposited intact and by the close of each school week, as required by District policy.

# Appendix A: Response From District Officials

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**MIDDLE COUNTRY CENTRAL SCHOOL DISTRICT**  
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*Roberta A. Gerold, Ed.D., Superintendent of Schools*  
*Francine McMahon, Deputy Superintendent for Instruction*  
*Beth Rella, Ed.D., Assistant Superintendent for Business*  
*James G. Donovan, Assistant Superintendent for Human Resources*

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February 23, 2023

Ira McCracken  
Chief Examiner of OSC Hauppauge  
250 Veterans Memorial Highway  
Suite 3A10  
Hauppauge, New York 11788

Dear Mr. McCracken,

The Middle Country Central School District is in receipt of the audit report issued by your office entitled Extra-Classroom Activity Funds, Report of Examination 2022M-160. Middle Country prides itself on having strong internal controls and financial oversight. We are however, always open to find ways to continually improve our operations, controls and our practices.

Of the eight recommendations offered within the report, seven of them have already been implemented as they only required minor adjustments/changes to our current procedures. Three of the eight recommendations pertain to the board appointments that occur only at the BOE reorganization meeting which occurs annually in early July of each year. Two of the recommendations were already addressed at the July 6, 2022, annual reorganization meeting. The third recommendation, the appointment of the Principals as the faculty counselors, will occur at the July 12, 2023, annual reorganizational meeting. Although the role of faculty counselor is already being done by the Principals, the titles appointed at the annual reorganization meeting will be revised to align with the recommended title.

The District has strong procedures on how to handle stale dated checks including requesting stop payments from the bank. The procedures were just expanded to include the extra classroom program.

Finally, there were four recommendations requesting additional documentation prepared at the club advisor and building level. Working together with District office, the District Treasurer, the Principals and all the Club Advisors, the recommendations were implemented shortly after the start of the 2022-23 school year.

Thank you.

Sincerely,

Roberta A. Gerold Ed.D.  
Superintendent of Schools

cc: Board of Education

The mission of the MCCSD is to empower and inspire all students to apply the knowledge, skills, and attitudes necessary to be creative problem solvers, to achieve personal success, and to contribute responsibly in a diverse and dynamic world.

## Appendix B: Audit Methodology and Standards

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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 the procedures and 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 Board meeting minutes to determine the Board-appointed ECA officers.
- We requested and reviewed the annual financial statements for the 2020-21 fiscal year.
- We requested all four central treasurers' ledgers for the audit period. We reviewed the transactions for the eight clubs selected for deposit testing and eight clubs selected for disbursement testing.
- We selected the eight clubs, two clubs from each building, with the highest deposits and eight clubs, two from each building with the highest disbursements during the audit period, which resulted in 10 clubs selected in total. We requested and reviewed activity club ledgers for the selected clubs, if ledgers were maintained.
- We reviewed the six largest deposits and six largest disbursements from the selected 10 clubs totaling \$277,906 and \$240,138, respectively. If a club had less than six deposits or less than six disbursements, we reviewed all deposits or disbursements.
- For the 39 deposits selected totaling \$277,906, we reviewed the club ledger to determine if the deposit was recorded, reviewed internal deposit forms to verify necessary signatures were obtained, and reviewed bank statements to determine if deposits were timely. Additionally, we compared internal deposit forms to bank deposit tickets and to bank receipts to determine if collections were deposited intact.
- For the selected disbursements, we reviewed the club ledger to determine if the disbursement was recorded on the club ledger and reviewed the check request form and invoices or other supporting documentation to determine if it was a valid ECA expenditure.
- We reviewed all 51 journal entries for ECA activities for the two schools that used an electronic accounting system. We documented journal entries that were made to record stale-dated checks and to reverse stale-dated journal entries.

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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-a (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 on the District's website for public review.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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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**Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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[www.osc.state.ny.us/local-government](http://www.osc.state.ny.us/local-government)

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